Economic Affairs / A Monthly Analysis

A special supplement to CHALLENGE

March 1, 1961

RECOVERY AND REFORM—that's the economic mixture the Administration is proposing, with the accent on recovery. Most of the Kennedy ideas have touches of both.

The recovery proposals reflect what we have learned in previous recessions, except for the new complications brought in by our gold outflow. In past slumps, the Federal Reserve and the Treasury have driven interest rates down in order to stimulate investment. This cannot be done now. One important reason for the recent gold outflow is the differential between U.S. and European interest rates.

Since it's the short-term rate that moves a lot of money around the world in search of high yields, the Administration wants to raise short-term interest rates but depress yields on securities such as bonds and mortgages.

To do this the Administration needs the help of the Federal Reserve. But the Fed traditionally objects to buying long-term government bonds on the open market. It is too much like printing money. Dillon, the Treasury Secretary, and Roosa, the Treasury's Budget Manager, are conservative men. The same is true of Martin, the Federal Reserve's Chairman. A rise in the price of bonds will be a sign that they have been persuaded to go along.

A number of other Kennedy measures are mostly for recovery. Extension of jobless benefits is an example. This was used by the Eisenhower Administration during the last recession. Payment of dividends on veterans' life insurance is something Truman used in 1949. Accelerated government construction and procurement plans are antirecession policies that are older than the New Deal.

Reform falls into 2 categories—growth stimulators and social reform. The chief growth stimulating proposal is a tax inducement to encourage investment in new plant and equipment. This has a recovery aspect, since new investment creates new income. On the other hand, higher social security benefits are part of the social reform program. Yet, by increasing benefits now and raising the tax that pays for them later, the Administration can put this forth as a recovery measure.

* * *

THE SLOW SLIDE in the economy is still in progress. The Index of Industrial Production is down to 103, a drop of 8 points from January's high. The durable goods are the ones that are taking the worst beating. Steel output doggedly hovers around 50% of capacity and cutbacks in auto production may bring this down. December personal income fell by $2.3 billion to $406.7 billion, reflecting high unemployment and shorter workweeks. Some further declines in the economic indicators are in prospect in the next couple of months.

Our basic strength, however, has been recognized by international speculators. In London gold declined to $35.25 an ounce, close to the Treasury price. For the time being, the "gold rush" is over.

True, our gold problem is far from solved. However, lack of speculation against the dollar will encourage the government to proceed with its recovery program, provided that the Administration and Congress can meet on common ground.

SPECIAL CORRESPONDENCE—The razor thin 5 vote margin of the Administration's victory in the battle to expand the House Rules Committee is a harbinger of future Congressional roadblocks for the New Frontier.

Despite heavy White House use of patronage and other traditional political weapons, and the considerable influence of Vice President Johnson and Speaker Rayburn, the conservative coalition led by Representatives Halleck and Smith almost won the day. With the Democrats badly split, the 22 Republicans who crossed the aisle to vote with the Administration made the difference.

With the anti-Administration forces holding almost half the seats in the lower house, the only major Kennedy proposals which seem assured of passage are the bill to provide $400 million in federal aid to depressed areas and the one extending unemployment compensation an additional 13 weeks. The bills facing the most vehement opposition are (1) the plan to include medical care for the aged under social security and (2) the proposal to raise the minimum wage to $1.25 per hour and extend the coverage to include retailing and other service industries.

The President, however, will have smooth sailing for his proposals to solve the balance of payments problem since the conservative coalition is firmly committed to the defense of the dollar—and Kennedy's solutions are in no way unorthodox. They involve, in essence, (1) a more effective use of the International Monetary Fund as a "central bank," (2) attracting and holding foreign central bank funds through tax advantages and higher interest rates, and (3) expanding U. S. exports and encouraging foreign tourism.

Some of these proposals, however, will put the Administration in the difficult position of deciding which problem is paramount—the balance of payments crisis or the deepening domestic recession. Higher interest rates, for example, might ease the gold problem by holding foreign banks funds in the U. S., but they would also aggravate the recession. Furthermore, low interest rates are an article of faith for many liberal Democrats, and any attempt to raise them could cause trouble for the White House among those who are the strongest supporters of the other aspects of the President's program.

While British reaction to most of Kennedy's appointments has been overwhelmingly favorable, London is a little apprehensive about the new Administration's attitude toward the European Free Trade Association (Outer Seven). This apprehension is based on the appointment of Douglas Dillon, a former Ambassador to France, as Secretary of the Treasury, and that of George Ball as Under Secretary of State for Economic Affairs. Ball is a former registered lobbyist for the European Common Market.

Most Latin American capitals are generally well pleased with Kennedy's announced intention of paying more heed to the problems of the Western Hemisphere. The appointment of Adolph A. Berle as over-all coordinator of all U. S. policies toward Latin America is a major factor in this feeling of confidence toward the new Administration.

This good will can be dissipated rapidly, however, if Washington fails to do something positive to bail out Brazil from its present financial crisis. The regime of President Quadros, which is only a few weeks old, is faced with a rampant inflation and the immediate problem of paying some $200 million in external debts. The solution is political as well as economic, since Rio seems unwilling to make the hard decisions which will eventually solve her problems—currency reform and national austerity. In the face of increasing anti-American sentiment south of the border, however, U. S. insistence on economic reform may do more harm than good.

COVER BY HOWARD WINTERS

Challenge

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BLACK FEBRUARY

THE COHORTS of Karl Marx could have hardly dealt free enterprise a blow more severe than free enterprise dealt itself this past month. How so? For one thing the business community acknowledged what a lot of "simple folk" knew for almost a year: the country, it seems, is in the grip of another economic recession, the worst of the postwar era. Just how is this deleterious to the cause of free enterprise? Perhaps the following allegory will help to make my point.

Suppose you are suffering from a bellyache, one persistently severe enough to cause you real concern. Naturally you decide to see a doctor, a particular gastroenterologist, in fact, who is highly esteemed in the community. He is an expert, and, more than that, he has gone on record as saying that if people are provided with the right ingredients (the workings of which he, of course, thoroughly believes in), bellyaches will be short-lived, if they occur at all. So you go to him.

Then suppose you keep on going for weeks and weeks, with the expert telling you after each visit that your health is really basically sound. What about your bellyache? Well, he says, that is an entirely normal symptom of a natural readjustment that has to be made from time to time by your uniquely individualistic body, owned free and clear by you. Nothing to worry about. What, no medicines, you ask. Of course not, he says. I don't want you to become a drug addict!

Now, I ask you. Wouldn't you start wondering about this expert and the special combination of ingredients for the prevention or relief of bellyaches that he is touting all the time? And then wouldn't you be tempted to just give up on the expert when suddenly, after months and months of a bellyache that you knew was real all the time, he should suddenly publish a learned article on the cause of your trouble and how you should have faith in his ability to find a cure that would prove he knew what he was talking about all along?

How much you read into this allegory probably depends on when you last had to suffer the "normal symptoms of a natural readjustment" in the economic body. It is general knowledge that today a considerable number of people are so suffering. Just how many depends upon how you read the statistics.

It has been 30 years since I had to present food stamps at a grocery store, so I am a conservative in these matters. I would say that only 4 million people can't get steady work and, therefore, are nowhere near as affluent as you might think they ought to be in this affluent society. When you include their dependents, you have about 16 million people who are out of the race to achieve an ever-higher standard of living.

Add to this number the proprietors of small businesses in depressed areas who aren't doing any business, plus 15 million others attached to spending units who in the best of times manage to earn marginal incomes, and you have approximately 35 million people with economic bellyaches of varying intensity. I would say that all of these people are candidates to join the group that doubts that the free enterprise medicine man knows what he is talking about. (I have not included in my tally certain intellectuals who would wonder about the sad state of things in Paradise itself.)

Now, I have my own ideas about that doctor whose stature may be declining in the eyes of a certain portion of our population. I would say that on the whole he really knows how to do the most good for the most people. In fact, I think he is the best doctor around. His long-term record will substantiate my claim.

But you know, the fellow is his own worst enemy. He hates to admit that he doesn't know all the answers, and he really is very sensitive and defensive when people remind him of his imperfections—even when the critics are friends of his. He panics when his mistakes become obvious, and his fumbling attempts to rationalize an error in judgment or an apparent gap in the knowledge of his profession only encourage people, unfortunately but understandably, to doubt his competency. In short, there's nothing wrong with him that a better bedside manner couldn't improve—and a little more self-confidence, too.

. . . when more than one blow fell

To be frank about it, the poor fellow is frightened stiff that he is going to lose his practice. To whom? Well, certainly not to the quack from Moscow. But more and more people are talking about making a switch to that doctor in Washington. *He* never freezes when an emergency develops. *He* always knows exactly what to do and is willing to swing into action, with your money, at a moment's notice.

Pity the poor free enterprise practitioner. It turns out that some of his most trusted pupils in the electrical equipment industry had no faith at all in his prescriptions. And his disciples in the automobile industry, after making all kinds of encouraging predictions about the future, laid off another 70,000 workers.

Yes, February was a black month for that doctor called free enterprise. If it weren't for the fact that the majority of us still has faith in his inherent qualities . . . Well, let's hope the old fellow has the good sense to take a long look at himself, perk up his pride, and use some of that private initiative he so often prescribes for others to find the remedies his patients need and want.—H. B.

LETTERS TO THE EDITOR

CHALLENGE *invites your comments. Address letters to* CHALLENGE, *475 Fifth Avenue, New York 17, N. Y.*

DURABLES AND INVESTMENTS

• In analyzing the forces determining the proportion of consumer expenditures likely to be spent on durables, Prof. Bilkey fails to consider one important factor ["End of an Era?", December, 1960]. This is the increase in family size which has appeared as an increasingly dominant value pattern in the postwar United States. The importance of this factor is that the increase in the number of children is very likely occurring at the expense of consumer durable expenditures.

This fact may be of sufficient importance to alter Prof. Bilkey's conclusion that "little or no secular long-term decline is likely to occur in the proportion of consumer expenditures going to durables" and to reinforce his concern with the investment, employment and growth implications of a decline in this type of expenditure.

Prof. Bilkey's suspicion that consumer durables are not buoying the economy as they once did is based in good part upon the existence of considerable excess capacity in the economy. He anticipates that, under these conditions, "any decrease in expenditures for consumer durables would cause investment in the producing companies to decline substantially," and that the diversion of spending to services and nondurable expenditures "could be accommodated without any new investments." Aggregate investment would be reduced and some depression of the level of national income would occur.

If the increase in the number of children is the cause of the stability of consumer durable expenditures, however, the implications for investment and employment are less pessimistic because the type of expenditure diversion involved is quite investment-absorbing.

Furthermore, many of the expenditures associated with childbearing and child rearing are concentrated in the public areas, e.g., hospitals, schools, etc., where excess capacity does not exist. Thus, it follows that if expenditures are being diverted from consumer durables to those surrounding family formation, less investment problems are created than if the diversion is to other expenditure areas.

T. K. RUPRECHT
Humboldt State College
Arcata, Calif.

QUESTIONS AND ANSWERS

• CHALLENGE always has been of great interest and value to me since its inception, but the January, 1961 issue, in particular, seemed to have more than the usual number of items of great import at this time.

The interview with Marcus Nadler impressed me greatly. Prof. Nadler, asked to advise on a policy matter, asked "some questions." One of his audience then said: ". . . it takes your question to make us realize what the problem is."

Many years ago I brought a problem to my senior and he "asked some questions." Even as I was making answer I realized that here was the solution and I felt foolish for having bothered him. Over the years I have come to respect this quality in others and I have tried to develop it in my own thinking.

In another article, "Don't Abdicate to the Experts," Edward Banfield states: "But the intuitive disregard of all but what is essential is the *sine qua non* of the successful decision maker's rare gift." This "gift" can be developed by careful search and analysis, but, as Prof. Nadler has demonstrated, it usually takes an outsider to bring out the essential element which is hidden.

Thanks for such a splendid publication and for such helpful articles.

C. J. HARTER
Newport, R.I.

EDITORIAL COMMENT

• I was delighted to read your editorial, "The Price of Progress," in the January issue. I was particularly interested in your conclusions about the role of private action in solving national problems. I believe some progress is being made in the development of private programs (e. g., the action of business management against depression) even though they are still relatively unimportant.

A. G. ABRAMSON
Director, Economic Planning
SKF Industries, Inc.
Philadelphia, Pa.

AUTOMATION AND JOBS

• Mr. Diebold refuses to recognize a grave problem associated with automation ["Life Under Automation," December, 1960]. He denies that automation can be a threat to jobs. But the facts of history show that all technical advances make old skills obsolete. Indeed, Mr. Diebold comes close to contradicting himself later when he says that job retraining is needed. If automation were not causing people to lose jobs, retraining would not be necessary.

By all means let us have automation where it will improve our ways of doing things, but we cannot shut our eyes to the human problems that it creates.

J. H. SMITHSON
Baltimore, Md.

AID OR CHARITY

• The lesson of our experience with the Navahos [December, 1960] is that economic aid is not the only thing needed to produce economic development. Economic aid is not charity; it is investment in people. Unless a people's culture is, or can be made, receptive to change, economic aid is impossible and anything given to them automatically becomes charity.

R. B. STEIN
Portsmouth, N.H.

• Clearly, practically nothing has been achieved by subsidizing the Navahos because they don't want to change the way they live. We should learn from this failure to stop throwing away billions on backward peoples.

S. L. MARTIN
New Orleans, La.

OFFSPRING AND EDUCATION

• It is hard to follow Mr. Renshaw's reasoning about preventing parents "from investing in an excessive number of children" ["Needed: More Quality and Less Quantity," December, 1960]. He states that a greater share of the cost of educating their offspring in schools should be borne by parents in order to dampen the population explosion. Presumably this means that parents would be charged fees for children who attend public schools. While this would prevent the careful planners from having more children than they could afford to educate, it would not affect the feckless. The latter would have the children, and if they could not afford to educate them they would let someone else foot the bill.

The result might well be to cut the fertility of the more intelligent while leaving that of the less intelligent as high as before. If this happened it would produce the opposite of what Mr. Renshaw wants—it would lower the average quality of human beings. Mr. Renshaw has, indeed, become too theoretical; he thinks that a social and human problem can be solved in economic terms alone.

B. K. TRAVERS
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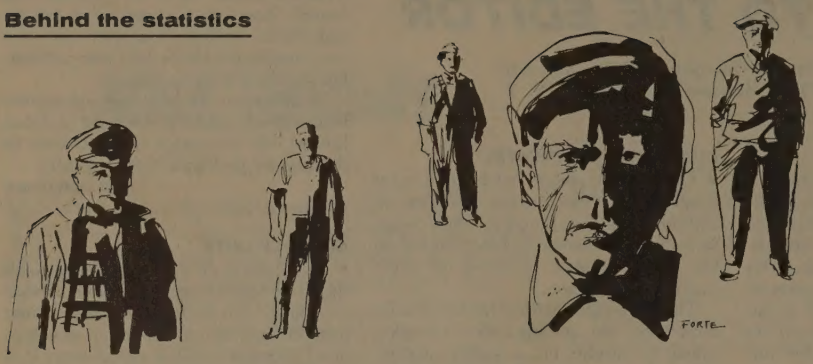


THE MANY FACES OF UNEMPLOYMENT

by NEIL W. CHAMBERLAIN

■ UNEMPLOYMENT is an ugly word. It is not now, as it was only a few decades ago, so directly associated with hunger, disease and privation; but it still brings with it insecurity, dependence, feelings of personal inadequacy and frustration. The brave and the bluff seek to keep these ghosts under cover, but unemployment insists on bringing them out into the open.

Approximately four and one-half million Americans saw the New Year in with unemployment as an unwanted guest whose presence was very much felt. Only about 10 per cent of this number had actually invited unemployment. (These were the persons who have given up one job in order to move to or shop around for another.) For them, joblessness probably would not persist long enough to be burdensome. Another 20 per cent consisted of those who had not previously or recently been working and who were now looking for a job. For many of these, too, the situation, while unpleasant, was not serious.

Unemployment, then, was probably not a searing experience to about 30 per cent of the jobless at the beginning of 1961. But this still left more than three million who were exposed to its sharp psychological thrusts.

About one million of this number, or almost one out of every four unemployed, had been out of work for 15 weeks or longer. Most of them had not yet experienced hardship, but this is no test of the seriousness of their situation. In our society today it is no longer the physical but the psychological impact of unemployment which is most destructive.

At the end of 1960 some 500,000 workers had been without a job for six months or more. They were distinguished, invidiously if impersonally, from their neighbors and associates by being economically unwanted.

Turnover among unemployed

The number of the long-term unemployed has been increasing (200,000 *more* without work for 15 weeks or more in December, 1960, than a year earlier), but it is still true that most joblessness lasts only a short time. There is a *turnover* among the unemployed just as there is turnover of the employed.

In 1957, for example, every month saw about 1.5 million people leave the category of the unemployed, and an equal number move into this status. Of those leaving, about one million found new jobs or returned to their former jobs, and the other half-million withdrew from the labor force altogether. (Many of the latter were older people or housewives who gave up trying to find employment, and students who returned to school. Some of them might return to the job hunt later. But included also were heads of families on short or indefinite layoff from companies where business was bad.) In 1958 more than 14 million persons were unemployed at some time during the year. In the first 10 to 11 months of 1959 about 12 per cent of all family heads in the labor force had experienced some spell of joblessness.

This turnover among the unemployed means that the hardships of unemployment are spread among many people and not concentrated on the same group throughout the year. From another point of view, however, it indicates how much more widespread the impact of unemployment is than a figure of four and one-half million at any one time would suggest.

"Hidden" unemployment

Moreover, part of the turnover of the unemployed is due to individuals leaving the labor force because they feel they have no prospect of getting a job. To that extent the net figures of unemployment understate it. This is sometimes referred to as "hidden" unemployment, because it does not get into the statistics. In addition, hidden *under*employment exists when individuals looking for work are driven to accept a job below their capabilities. In periods of manpower surpluses, skills and talents often go wasted on jobs that do not demand them. This is a psychological hardship to the indi-

vidual as well as an economic loss to society.

The job situation in the United States, then, as 1961 began, was roughly as though fate had tapped every fifteenth person in the labor force, marking him as one to be taken from his job and segregated into a giant compound. Of those in this compound, one out of four had asked to be included, but three out of four went unwillingly. Every day the gates to the compound are opened; some are let out while others take their places. But one out of every four has been kept there for more than three months, and one out of eight has been there for half a year or longer.

This picture stresses the psychological aspect of unemployment which is perhaps most important—the individual's feeling that he is controlled by external circumstances, and that short of making the usual discouraging round of employment offices, there is little he can do but wait. Those who maintain that assistance to the unemployed tends to rob them of self-reliance might consider whether unemployment itself does not do so far more effectively.

Other employment effects associated with declines in economic activity have less of a psychological and more of a straightforward economic impact. These are the reduced length of the working week and the amount of part-time employment. In December, 1960, the average factory workweek fell by .4 of an hour to 38.8 hours, the lowest December level since World War II. In the same month 1.5 million nonfarm workers who usually work full time, and another 1.3 million who were already working part time, were on reduced schedules.

Not a new phenomenon

Unemployment is not a new phenomenon. The United States has always had recurring periods when jobs were hard to find. Is there any reason to be especially concerned now? Has the nature of the unemployment problem changed so that it requires re-examination? The answer to both these questions is probably "Yes."

In the postwar era the recoveries from the recessions have been less than complete: the pool of unemployed has grown proportionately larger and more persistent. Since the war the United States has been through three recessions, and we are currently in our fourth. The three preceding ones occurred in 1948-49, 1953-54 and 1957-58. In the first recession the recovery which had taken place before the start of the Korean war left unemployment at a five per cent level, about 20 per cent above the prerecession rate. By late 1953 it had declined to 2.6 per cent, the record postwar low.

The second recession followed, and in May, 1955, when business was back to "normal," unemployment was still 4.2 per cent, considerably more than the previous rate. Again, in 1959, after industrial production had climbed back to its prerecession peak, the unemployment rate stood at 5.6 per cent, and even by January, 1960, had fallen only to 5.2 per cent of the labor force. Thus, the fourth recession, beginning in May, 1960, started from an already high level of unemployment.

Several explanations

There have been several explanations for this discouraging performance of the economy. Some have sought the reason in excessively tight monetary policy, which has restrained recovery and held it within too-limited bounds. Since productivity is increasing, the same amount of industrial output can be secured with less manpower at the end of a recession than at its beginning. As there are also additions to the labor force, unemployment can be held to previous levels only if production increases. If monetary policies or other governmental programs restrain industrial expansion, recovery may not be pushed to the "record" levels needed to keep unemployment within the same bounds.

Another explanation is that the changing composition of the labor force contributes to a higher degree of employment instability. If the proportion of people in the labor force who are most susceptible to layoffs increases, and those who have a higher degree of employment stability become of less importance in the total, then unemployment levels may be harder to keep under control than formerly—even though there may be no change in governmental policies, monetary actions or business or union activities.

The changing structure of the economy, as reflected in a changing composition of the labor force, may have produced the postwar employment pattern. For example, the reduction in the numbers of farm workers and their shift into other forms of employment undoubtedly had its impact on unemployment levels, since farm employment is much more stable than nonfarm. Similarly, the addition of proportionately more women to the labor force might be expected to have the same effect of increasing unemployment levels, since women typically are employed in more marginal jobs than are men. It seems unlikely, however, that changes of this nature can, by themselves, account for the higher unemployment plateau.

In any event, we are faced with a problem. It is a question of legitimate concern as to why the United States has lagged behind many foreign economies in the postwar period, not only in its rate of growth but also in its control of unemployment.

Let us take a closer look at the unemployed. Who are they? Why are they jobless?

First, there are several different kinds of unemployment. Of these, perhaps the most important are frictional, seasonal, cyclical and structural. The frictionally unemployed are those who are temporarily out of a job—sometimes because they have been laid off for a spell, sometimes because they have changed jobs, sometimes because they have been fired, and so on. There are always frictionally unemployed people, and their presence should cause no anxiety. They are the mark of people's freedom to quit jobs, to move around, to try to better themselves, just as they are the mark of a free economy in which some firms are declining and laying off, while others expand and add more workers.

Intractable problem

Seasonal unemployment is a more intractable problem. Some industries are seasonal in their very nature—canning and harvesting, for example. Others, such as construction and mining, are dependent on weather. They are indispensable activities and cannot be eliminated. Despite efforts

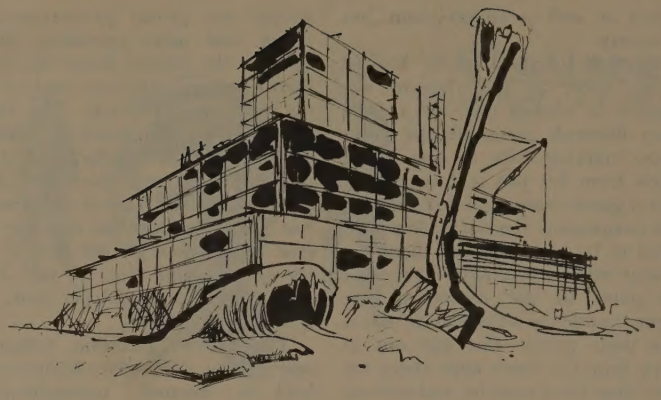
at dovetailing—combining a swimming pool with an ice-skating rink, for example—to cover a full year, some seasonality of employment is unavoidable. All that we can say—after all efforts have been made to reduce this source of unemployment—is that compensation programs should seek to mitigate the harshest financial burdens so that annual incomes are adequate for minimum needs.

Cyclical unemployment occurred as waves of rising joblessness rolled over the economy four times in the postwar period. It can be partially met through unemployment compensation and supplementary unemployment benefit programs, if its duration is short enough. But it often calls for special governmental programs designed to bolster economic activity. The 1946 Employment Act, which made the government responsible for encouraging and maintaining economic activity at levels consonant with full employment, is largely addressed to cyclical unemployment.

Structural unemployment is the most difficult of all to combat. It is caused by the rise and fall of industries, occupations and regions, and by radically changing technologies and markets. It is hard to offset because it is concentrated in a particular town, region or industry. So many of the unemployed are lumped together that they create a "chronic" condition, which prosperity in the nation at large will never correct. For these groups of workers, as groups, there is nothing but a bleak future.

Selective pattern

The two types of unemployment which most demand attention are cyclical and structural. If the people in these categories were drawn at random from the population at large, we could proceed directly to try to do something about these kinds of unemployment. But the characteristics of the unemployed show that the pattern is not random, but selective. Unemployment tends to be concentrated among the young, the old, the nonwhites, workers in the goods-producing industries, blue-collar workers and the unskilled and less educated. To some extent women are more affected than men, but on an over-all basis their plight is not so striking as that of the other groups listed.



Let us first consider the young. To many people it is surprising that unemployment tends to be most heavily concentrated in the 14 to 24 age group. Among youngsters in the 16 to 19 category the rate of unemployment is three times that of the labor force at large. And in the course of a year boys 18 to 24 have proportionately the heaviest incidence of unemployment of 15 weeks or more—about twice that for men in the 45 to 64 category.

The reason is that most of these young people are getting adjusted to the world of work. Typically, in their first year or two of employment, they will switch jobs up to half a dozen times before they satisfy themselves that they have done about as well as they can expect to do. With experience, then marriage, family, and home ownership, this period of shopping around for a good job comes to an end.

While improved counseling services might well help to curb some unnecessary movement, probably most of this frenetic job activity is part of the experience of growing up. It seems unlikely that the heavy concentration of unemployment in this group is anything about which much can be, or perhaps should be, done.

At the other end of the age spectrum the situation is different. The rates of unemployment among workers 45 and over are very comparable with those for workers in the prime age group of 25 to 44. The statistics collected do not show that the former group is disproportionately represented among the unemployed. Numbers of older workers, however, withdraw from the labor force altogether because they have no luck in finding a job after having lost one; perhaps they go on social security or private pension before they would have liked to. This hidden unemployment of an unknown number of persons makes it probable that a problem exists. Moreover, the duration of spells of unemployment is longer for the older than the prime age group.

Clear-cut problem

The problem of the nonwhite worker is clear-cut. For colored members of the labor force, unemployment rates are twice as high as for whites, and spells of unemployment last almost twice as long. In part, this is attributable to the relegation of colored workers to unskilled jobs, where unemployment tends to strike more frequently; their relatively more limited education, born of limited opportunity, also exposes them to adverse employment experience. In any event, the effect of discrimination is evident in the statistics.

Among industries, workers in mining and construction have the greatest incidence of unemployment (12.7 and 15.9 per cent respectively in December, 1960), with those in manufacturing following (almost 7.5 per cent in the same month). In contrast, 4.5 per cent of the workers in industries providing services were unemployed last December, and of those in finance and public administration only 3.1 and 3.2 per cent, respectively. Clearly, goods produc-

ers are more likely to lose their jobs than are service producers.

Joblessness is related to occupation in that blue-collar workers are more unemployment-prone than white-collar workers. On a skill level, the unskilled have a much heavier incidence of unemployment than the semiskilled (15.6 per cent of the former were out of work in December, 1960, as against 9.9 per cent of the latter). And semiskilled operatives have a higher unemployment rate than craftsmen (9.9 per cent as against 7.4 per cent). But clerical and sales employees experienced only about 3.7 and 2.7 per cent unemployment respectively, while for professional and technical employees the rate was 1.7 per cent.

The fact that the jobless fall into these major groups indicates that unemployment is not as general a problem as once was believed. It is also probably true that the concentration of unemployment on special groups has gone further today than in the past, though statistics to prove this are imperfect or lacking.

In any event, it has become the fashion among the experts to say that unemployment is now a matter of class rather than mass. However, if unemployment rises much above the seven per cent level, it begins to suck in numbers of those outside the susceptible groups.

The corollary usually drawn from the apparent change in the composition of those out of work is that the kind of broadside attack on unemployment which used to be recommended is no longer very helpful. Governmental fiscal and monetary efforts to stimulate economic activity, it is said, make sense only when dealing with the unemployed who are drawn at random from all parts of society. In that kind of situation, the promotion of business activity will encourage more hiring, and people with all kinds of skills will be called back to work.

But the situation is different when the unemployed are largely people who are less wanted than other workers—those discriminated against, those with limited education, and those in declining occupations and industries. Then, say the experts, special policies are needed for each special group.

One of the special policies advocated has been a vastly expanded counseling service for the young. A Youth Conservation Corps has also been suggested, reminiscent of the Civilian Conservation Corps of New Deal days, which could enlist, among others, numbers of students who now unsuccessfully look for part-time employment during the summer months.

The Fair Employment Practices approach to discriminatory hiring based on race has been urged as one means of lessening the disproportionate impact of unemployment on Negroes and other nonwhites. This proposal is often met by stubborn insistence that "you can't legislate people's sentiments," but this is an irrelevant response. It is not sentiment but behavior which such legislation would seek to affect.

Special treatment

The approach that the ranks of the unemployed are made up of groups which require special treatment has considerable merit. At the same time, any suggestion that our postwar levels of unemployment can be handled solely by such efforts is mischievous. Insuring that more youngsters complete their high school education makes them more employable, but it does not automatically provide them with jobs. Removing some of the discrimination against Negroes will put them on a more equal footing with whites in the competition for work, but it will not guarantee either blacks or whites that they will find it.

After all such special-group efforts have been made, a booming economy is needed to keep everyone—except the frictionally unemployed—at work. The Employment Act of 1946 is still necessary, and should be utilized.

That Act has suffered an ironic fate. It was founded on the haunting memories of from 12 million to 20 million unemployed during the Great Depression of the 1930s and on the determination that such mass unemployment should not be permitted to happen again. But the Act had scarcely passed before it became a dead letter. In the postwar years the old ghost of mass unemployment gave way to the spectre of inflation. For more than a decade the federal government was more concerned with rising prices than with rising unemployment.

Conditioned ideas

What we now need to recognize is that in regard to the re-employment of specially disadvantaged groups there is no basic incompatibility between approaches to full employment and control of inflation. If we need to put people back to work to provide them with income and security, we also need their labor to turn out the goods and services to match the money which people spend, thereby helping to keep prices stable.

Our ideas about unemployment have been conditioned by our thinking of it in mass rather than class terms, and our ideas about inflation have been similarly distorted. As long as one believed in random or "mass" unemployment he could argue that at least it was something of a curb on inflation. Workers couldn't push wages up so easily when other workers were looking for jobs, and employers wouldn't push up prices if their costs weren't rising.

But the jobless are not a "random" group and their unemployment, instead of curbing inflation, may actually make it worse. At times

when demand is pressing on supply, at current prices, their numbers contribute nothing to output. On the other hand, because of their special characteristics they cannot readily be substituted for other workers, and hence fail to act as a brake on wages and prices.

It is not a matter of choosing between two approaches to unemployment—the group problem and the broadside approaches. In fact, both are needed, and one is ineffective without the other.

Programs directed at the problems of particular groups could include: counseling young workers; attacking racial discrimination in hiring; inducing youngsters to complete their high school education and go on to college, if they have the intellectual capacity for it; encouraging employers to recognize that older workers bring assets as well as liabilities with them; and retraining workers for jobs in growing industries or needed occupations. But to believe that all these useful and necessary programs will be enough in themselves to put people to work is wishful thinking. Such measures will not do away with recessions, and when recessions appear the old broadside measures of fiscal and monetary policy, and perhaps some fresh over-all approaches as well, will be needed.

It is equally fallacious to assume that the broadside treatment can be effective without the special measures. We can spend and spend, and we still will not put people back to work if they are unemployed for special reasons. At least we will have to spend more than otherwise would be necessary to make their marginal employment worthwhile to some employer, and in the process we will revive the old concern of whether we are not spending ourselves into inflation.

But if we first attack the special disabilities of the unemployed groups, and then—or concomitantly, since the unemployed cannot wait indefinitely—sustain, by federally inspired efforts under the Employment Act, the general buoyancy of our economy whenever it flags, we shall be moving effectively on both the unemployment and inflation fronts. The more well-trained people are used to best advantage, the less likely is it that the supply of goods will fail to keep up with wants.

Too much coddling?

Some few people will perhaps argue that this double-barreled program represents too much coddling of people who should learn to look out for themselves. Let me be blunt. The fear, still encountered in some quarters, that "too much" attention to the unemployed, "excessive" efforts to give them assistance, coupled with payments to them when they are out of work, will have a damaging influence on the self-reliance of our people, is an outmoded superstition.

The fact is that the kinds of self-reliance which are needed change. None of us would be particularly successful at surviving in the conditions of the distant past. What is more, it would be a shameful farce to make every youngster learn how to make fire by friction or to track a wild animal through the woods instead of acquiring a knowledge of physics and economics. The latter studies are certainly more intimately related to his survival in today's world than is the woodsman's lore.

Similarly, though the capability of carving a job out for oneself in the economic jungle of a young economy was once essential to survival, our improved arts of organization and economics have now put us a stage or two beyond that primitive state. Governmental programs to reduce special disabilities associated with particular groups in our society, followed up by broad programs to mobilize the improved talents of the members of these groups in productive channels, can scarcely be thought of as debilitating to their character unless we have lost all sense of perspective. Their characters can as readily be tempered *on* a job as in repeatedly or protractedly seeking one. ■

The limits of legislation

Needs of the AGED

by JAMES L. ESSIG

■ THE ECONOMIC PROBLEMS of the aged are in the national spotlight. Today the 16 million Americans aged 65 and over make up nine per cent of the country's total population. And there is a growing realization that they include some of our most underprivileged citizens—especially widows, very old persons and those with unusually large medical expenses.

A major battle has been raging around all questions relating to the income and needs of our aged citizens. On the one side are those who would rely primarily on social security to provide for the needs of these people. On the other side are those who regard social security as a basic floor to income, to be supplemented by a variety of private income sources and, where necessary, by increased public assistance.

The social security approach seems attractive to many people because more aged persons receive a regular income from this source than from any other, and because increases in benefits can be made almost imme-

diately, following Congressional action. Two-thirds of today's aged receive social security payments, compared with a mere 17 per cent in 1950.

There is hardly any controversy on the desirability of increasing social security benefits as prices rise and, indeed, frequent Congressional action has enabled benefits to more than keep pace with prices over the past decade. But those who favor immediate action via social security feel that the aged require further benefits because of their low income average and their high medical expenses. (The median income figure for families headed by persons aged 65 and over was $2,831 in 1959, compared with a median figure of $5,417 for all families.)

But in this connection it is important to remember that "the aged" do not form a homogeneous group. Their ranks include fully employed married couples and elderly widows with limited marketable skills and perhaps no social security benefits; executives retired on ample pensions and persons dependent entirely on minimum social security benefits supplemented by public assistance; parents living comfortably in households of daughters or sons, and others who live alone and eke out an existence through occasional part-time employment. The needs of these people vary tremendously according to their situation.

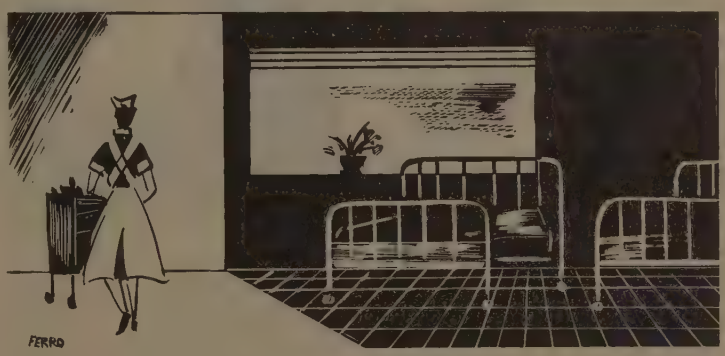
Moreover, estimates of the money income of the aged can be misleading. Published surveys invariably report money income *before* social security payments and federal, state and local income taxes. These taxes have a much greater impact on the working-age groups than on the aged. Thus, the gross income received by aged persons goes further than might appear at first glance.

Tax advantages

Persons aged 65 and over enjoy a number of income tax advantages: double exemptions; deductions for medical care expenses starting with the first dollar of these costs; nontaxable income from such major sources as social security, railroad retirement, veterans programs and life insurance proceeds; and special income credits for annuities and other retirement income. Of course, these income tax advantages are offset to some extent by excise and real estate taxes that are likely to have a heavier impact on those with lower incomes.

Another shortcoming of the money income estimates of the aged is the fact that they entirely overlook nonmonetary income. Although statistical data in this area are crude or simply unavailable, nonmonetary income probably plays a much more important role in the finances of elderly people than it does in those of younger adults.

Two-thirds of families headed by persons aged 65 and over own their homes, usually mortgage-free. Current housing costs for these people are normally much less than for nonowners, despite the impact of real estate taxes and upkeep costs. Also, since almost one-third of all older people live in households with adult children, the aggregate significance of contributions in the form of shelter, food, payment for medical services, gifts and other items must be considerable. Other important nonmonetary income sources include



home-grown food, free meals for domestics (the major occupation of employed elderly women), and various free community medical and recreational services. To the extent that aged persons derive income from such nonmonetary sources, they have a powerful built-in hedge against inflation.

The aged also have more financial assets and are less likely to be saddled with debt than younger people. Many have accumulated a sizable net worth in the form of liquid assets, homes and real estate, businesses and professional practices. Their equity in homes is by far the most important asset for most older persons, but this equity, of course, is not an immediately available source of funds.

In general, financial needs, like income, increase during the early part of adult life and diminish in the later years. One type of outlay which for 25 years dominates most family budgets—the cost of raising and educating children—is greatly reduced. Additional economies are realized after retirement because expenses such as commuting costs, meals away from home, union dues, etc., are either completely eliminated or sharply reduced. The need for household durables, clothing and food also diminishes with advancing age. But some expenses—particularly those for medical care—increase significantly.

Important budget items

Medical care expenses have received special attention from advocates of expanded social security benefits because these occupy an important place in the budgets of many aged persons, and because hospital costs have been among the fastest rising items in the Consumer Price Index. Aged persons spend at least twice as many days per capita in hospitals as the total population, and they frequently suffer from chronic conditions. Still, medical care expenses amounted to only nine per cent of a sample budget for elderly couples compiled by the Bureau of Labor Statistics. Of course, the impact of medical costs on an individual in a given year is unpredictable, but the expansion of voluntary

health insurance coverage for aged persons provides a partial solution. It is estimated that at the end of 1960, 65 per cent of those aged 65 and over who needed and wanted health insurance had some coverage.

Dollar benefits

The problems of low income and high medical bills are not as widespread among the aged as the recitation of money income averages and the citing of cases of extreme hardship might lead us to believe. Social security, because it provides tax-supported benefits for such a broad segment of our expanding aged population, may not be the most efficient way to help aged persons who are in very real distress. A general increase in dollar benefits (other than to offset rising prices and perhaps provide a small share in increasing productivity), or the provision of medical care benefits to all covered by social security, would increase the income of many who do not require this help. And such benefits would cover only a portion of the expenses of those most in need. Moreover, this approach would completely bypass the more than four million aged persons not eligible for social security benefits.

Some changes can be made within the social security system in recognition of the fact that the needs of the aged differ. One possibility would be to raise the benefit level for the one and one-quarter million women drawing widow's pensions. (These benefits are now calculated at only three-fourths of those for retired workers.) Another possibility would be to raise the present minimum benefit of $33.

Such proposals are attacked on the grounds that they favor one group of beneficiaries against another, and they weaken the contributory wage-related principle of the system. But is not the social security system itself one of adequacy more than of equity? The beneficiaries today and those to come on the rolls in the next few years have paid in only a fraction of the cost of their benefits. Ray M. Peterson, a distinguished life insurance actuary, shows that present workers under social security and their employers, as a class, will have paid in only about 40 per cent of the value of the benefits they will receive. On the other hand, new entrants and their employers will pay about 170 per cent of their benefits.

The remarkable economic gains and institutional changes in U.S. society since 1940 ensure that persons retiring in the future will have substantially higher incomes than today's aged. This raises the question of whether a general increase in social security benefits is wise at this time. Such an increase would constitute an *irreversible solution* for what is likely to be a *transitional problem*. Today's workers—our future aged—have a higher level of education and they have higher and more stable earnings. Total accumulated long-term institutional savings (insurance reserves, savings accounts,

savings and loan shares, etc.) rose 83 per cent between 1950 and 1959 to about $340 billion.

The impact of the recent sharp growth in private pension and deferred profit sharing plan enrollment —from 10 million workers in 1950 to about 21 million now—will be felt in the future. At present, only about one and one-half million retired employees are receiving such retirement benefits. Future benefits will reflect the higher level of wages in the 1950s. A growing proportion of retired employees and their dependents will benefit, too, from the continuation of group hospital, surgical and medical coverages into their later years.

The realization of the full potential of pension plans will depend upon a number of developments. One is the extent to which the plans provide vesting privileges which enable the worker, on leaving employment in advance of normal retirement age or length of service, to receive all or part of the benefits purchased on his behalf by the employer. This may be costly for some employers, but it is a cost which must be borne if retirement planning is to remain mainly under private rather than public auspices.

The modern concept is to regard retirement benefits as an integral part of the employee's income. Government surveys show that 58 per cent of large collectively bargained pension plans provided vesting rights in 1958 as compared with 25 per cent in 1952. Supporting this trend, multiemployer or industry-wide pension plans, which accomplish much the same result as vesting, are rapidly becoming the rule in a number of industries. Another major development is the adoption by a growing list of employers of the new group variable, or common stock, annuity. This will protect future pensioners against loss of income due to inflation.

Some proposals have been made to accelerate the establishment of pension plans in small businesses. These proposals would allow the small businessman the same tax deduction (52 per cent) for pension plan contributions as is presently allowed for large employers. They would also reduce administrative costs by simplifying qualification requirements and tax deduction reports.

Difficult circumstances

Social security payments, too, will be considerably higher for those who retire in the future even without any further liberalization of enrollment and benefit provisions. Many elderly persons of today were not in covered employment long enough to obtain social security benefits. Many widows are in difficult circumstances because their husbands' employment was not covered. Although the system began in 1937, many jobs were not covered until 1951 or 1955. But the U.S. Department of Health, Education and Welfare estimates that by 1970, 82 per cent of persons aged 65 and over will be eligible for social security benefits. Moreover, their benefits

will reflect recent high wage levels.

Another development which will raise the average level of future benefits is the great increase in recent years in the number of married women workers. These women will receive greater monthly benefits as retired workers than as dependent wives or as widows. Nor should we overlook the fact that a higher proportion of our future aged will be veterans, or wives or widows of veterans, and thus will be eligible in time of need for various important benefits.

The economic and institutional developments noted above improve the financial prospects for tomorrow's aged, but they do not help today's widows, very old people and those with high medical expenses. Perhaps the best over-all solution would be a considerable increase in the availability and benefits of old-age assistance. Since the 1930s federal grants have been provided for state old-age assistance plans as a major backstop to social security. Old-age assistance could serve now as a stop-gap until the trends mentioned earlier "catch up."

Cost distinctions

A great economic advantage of the old-age assistance approach is that it goes to the aid of those in need. Social security, on the other hand, taxes today's workers to provide tax-free benefits for retired executives as well as for underprivileged persons.

These cost distinctions are extremely important today because social security taxes already are scheduled to rise 50 per cent by 1969—even with no further increase in benefits. This reflects the rapid expansion in enrollment and benefits since 1950 for an aged population that is growing faster than the total population. The heavy costs fall on younger workers now struggling to rear and educate their record number of children born since World War II. And the needs of our aged compete with other claims on our national income, such as defense, foreign aid, education, conservation, health and slum clearance.

What can we do to make old-age assistance more effective? One of the big objections to assistance is that it involves a means test; beneficiaries usually are not allowed earnings and sometimes may be obliged to surrender property. These tests should be relaxed and, in addition, entirely new standards should be widely established for those who are "medically indigent." Legislation approved last year creates a new federal-state program of medical services for aged persons who are not receiving old-age assistance, and whose income and resources are not sufficient to meet their medical expenses. This program provides a useful framework on which to build for the future.

Other favorable developments are proposals by more and more states to modify or completely eliminate residence requirements and laws making relatives responsible for the aged. Some needy old people are unwilling to apply for old-age assistance now because this would subject sons and daughters to a financial investigation.

Employment continues as the major source of money income for those aged 65 and over, despite the long-term decline in the proportion of older men in the labor force. Families and individuals in the retirement ages show striking dissimilarities in money income depending upon the presence or lack of earnings. Fully employed individuals, on the average, have money incomes two to three times the level for the aged group as a whole. This is inflation-resistant income, since wages generally keep pace with price increases.

Vital assets

Employment is the most desirable of all possible methods of increasing the income of aged persons able and willing to work, for it is consistent with other national objectives and also provides personal psychological benefits. The skills and experience of older persons are vitally important assets at a time when our economic competition with Russia is in the world spotlight. The crucial importance of this is pointed up by labor force projections for the 1960s, which indicate that almost half of the 13.5 million workers who will be added to the labor force during the present decade will be inexperienced and unskilled young people under 25 years of age.

The impending shortage of middle-aged workers (due to the low birth rates following the depression of the 1930s) will strengthen the demand for productive older workers. Employment of a larger proportion of aged persons also would help reduce the economic burden on the working-age population. In 1959 there were 80 persons in the "dependent ages" (under 18 years, and 65 years and over) for every 100 in the "productive ages" (18 to 64).

The most important method of providing more employment for the aged is the development of *flexible retirement provisions for productive employees* in private industry and state and local government. Employers increasingly pay closer attention to the abilities of their older employees and less to their chronological ages, although recognizing that this sometimes means postponed promotions for younger employees. More and more companies are raising the compulsory retirement age to 67, 68, 70—or removing it entirely. The United States government sets a good example by permitting competent individuals to stay at their jobs until they reach 70.

"Keeping busy"

Survey data show that many older workers perform better than the average for younger groups, and also that over half of aging employees wish to keep their jobs after they reach 65 years of age. Other aged persons are interested in finding new employment or in "keeping busy" with a part-time job. For these job seekers, *information* is most important. To provide this, "older worker specialists" at state employment offices might be needed, and, also, voluntary community groups to find jobs for local people. In addition, advice on postretirement occupations and avocations might become an integral part of corporate and union programs.

Many other proposals have been made to help ensure adequate incomes for more of our senior citizens, but enough has been said to suggest that social security is not the only alternative—nor perhaps the most efficient. In reaching our decisions on how to provide help for the aged, we cannot ignore the fact that everyone over 65 is not in need and that a program covering them all would be needlessly expensive. ■

THE STATE OF STEEL

by HERMAN ROSEMAN

■ THE LATEST and most surprising entry on America's roster of sick industries is iron and steel. All through 1960 puzzled observers watched the steel industry's operating rate dip from a poststrike high of about 98 per cent of capacity to a second-half low of under 50 per cent. Almost every week, it seemed, industry leaders predicted a coming upsurge in orders. And every week there was new disappointment, until, at the year's end, the industry was, by its decision to end publication of capacity and operating rate figures, publicly—though only implicitly—admitting defeat.

As this decision has been widely criticized, let us examine its meaning and possible justification. The steel industry's leaders, by abandoning this traditional yardstick, seem definitely to be admitting that there is little hope in the foreseeable future of steel output approaching the 90 per cent of capacity rates it often reached in earlier years. Its present capacity is in the neighborhood of 150 million tons a year; in the best previous year, 1955, only 115 million tons were produced, and an output of 100 million tons is hoped for in 1961. Clearly, a major economic upswing would be needed to put the steel industry back in the position it was when President Truman attacked it for building insufficient capacity.

This, however, is no justification for ending publication of the figures. Nor is the claim by steelmakers that much of the capacity is obsolete. That obsolete capacity certainly seemed quite productive in the days just before and just after the steel strike of 1959—the industry was then operating close to the 100 per cent mark. But although the operating rate does measure what it purports to, it is highly misleading when put to certain traditional uses, and that is sufficient reason for dropping it. Traditionally, the operating rate in steel, or any other industry for that matter, is an indicator of its profitability. But in recent years the steel companies have succeeded in lowering their break-even points to such a degree that this historic rule of thumb has either to be dropped or revised.

Another traditional use of steel's operating rate has been as a measure of the nation's economic health, on the theory that as steel goes so goes the nation. This motto, like its political counterpart, is quite obsolete. Between 1955 and 1960 steel output fell 15 per cent; but in these same years total industrial production *rose* by about one-tenth. Moreover, while steel was operating at under 50 per cent of capacity, the proportion of unused capacity in the economy as a whole was, happily, much smaller.

Doing away with the capacity figures will not hide, of course, the fact that something has gone sour in the steel industry. The production figures alone make that perfectly clear. The capacity figures only dramatize the point, since capacity in the last five years has risen at an even faster rate than output has fallen. What has gone wrong in the steel industry? Is it a case of poor management? of shifting markets? of new competition?

One answer occasionally made is that the steel companies have underresearched and overpriced their product, and in consequence competitive materials have been able to make significant inroads into steel's historic markets. Whatever we may think of the premises of this argument, they do not necessarily entail the conclusion.

It may or may not be true that steel prices were boosted during the 1950s even faster than were the pacemaking wage costs in the industry; it may or may not be true that the steel industry has made no effort comparable in scope or ingenuity to that of the aluminum industry to develop its sales. It hardly matters; for it is far from established that competing materials *could possibly* take away enough of steel's markets to impel that industry into a virtual depression. The aluminum industry has a total capacity of roughly two million tons a year; compare that to the 150-million-ton steel leviathan. The one can do no more than "nibble"—as one writer has put it—at the other's markets. And in the short span of time since steel ceased to be a booming industry, it could hardly have been nibbled down to its present state.

No, amusing as it may be to launch barbed criticisms at the steelmakers, long a target for public attack, it is neither fair play nor clear thinking to blame management for what has happened to the steel industry. Rather, the blame attaches to a more impersonal and more profound cause—namely, a certain malaise in the economy as a whole.

My thesis is that the slowdown in economic growth over the past half-decade is the culprit. This slower growth has produced for steel and the industries it supplies an actual decline in their level of business—not merely a slowing down of their rates of growth.

The economist will readily recognize this as a description of the working of the "accelerator," the technical name for the relationship between the demand for consumer goods and the demand for investment goods. This relationship means that the demand for investment

goods (aside from replacement needs) depends, not on the *level of demand* for consumer goods, but rather on the *rate of growth* of consumer demand. The faster consumer demand for goods is rising, the greater is the need for additional capital equipment to meet the demand. On the other hand, if demand is not rising, then the need for net new investment is nil. Thus, if the rate of growth of total output is declining, we should expect that the *level of output* of investment goods is declining as well.

How does this apply to steel? Virtually every use of steel is in some form of investment goods. It is used in machinery, in heavy construction, in buildings—all investment goods. But it is also an important component in automobiles and household appliances. Are these, too, investment goods? In a sense, they are. The statisticians who compile data on our national wealth as often as not will include consumer durables in the totals. Statisticians investigating personal saving and its determinants often conclude that consumers who purchase durables *behave as if* they were investing rather than consuming.

Many theorists also incline to this view. They contend that an investment may be defined as *any* accumulation of durable goods that render services over a long period of time, whether those services are rendered directly to the consumer, or indirectly through the commercial production of services or of other goods. The consumer's purchase of an automobile is, then, no less an investment than the commercial purchase of a taxicab, bus or jet airliner; in either case, there is an investment in future transportation services. And that investment will not be made unless the present level of transportation services is deemed insufficient to meet the needs or desires associated with present levels of income.

Long-range durable

Thus, because steel is an eminently durable good which serves us over a long period of time, the demand for it depends on the *growth* of demand for its services, that is, on the growth of income and production. The decline in steel output since 1955 is, then, attributable to a re-

duced rate of growth in the economy as a whole. Rates of economic growth have been kicked around the political gridiron for the past year or two, but the main facts are clear.

Since 1955 the gross national product has grown only half as fast as in the earlier postwar years. Between 1947 and 1955 it increased, on an average, by 4.2 per cent a year; between 1955 and 1959 by only 2.2 per cent a year. The rate of growth in the output of construction and durables has fallen even more than that of the GNP, as the accelerator principle would lead us to suspect. In fact, durables output actually declined in the 1955-59 period by an average of .2 per cent a year. Construction volume has increased only one-sixth as fast as in the earlier postwar years. The 1947-55 average annual growth rate was 8.2 per cent, while the 1955-59 rate was 1.4 per cent.

In the earlier period rapid growth in real GNP—all the above percentages are calculated on a basis of constant dollars—was accompanied by even more rapid growth in durables output and construction. In the later period relatively slow growth in the GNP went along with a virtual cessation of growth in construction and an actual decline in durables.

The effect of the slowdown in over-all economic growth was even more pronounced in the case of the steel industry. Steel just kept pace with the GNP during the earlier period—its average annual rate of growth between 1947 and 1955 being four per cent, as compared with 4.2 per cent for the GNP. But the subsequent slower growth rate of the GNP—2.2 per cent—was accompanied by a steeply declining trend in steel output, which sank by an average of five per cent annually between 1955 and 1959.

Steel is often called the bellwether of the economy; it might with more justice be called the caboose, for it takes every turn harder than the rest of the economy. As we shall see in the following discussion, this results mainly from the character of the industries which are steel's biggest customers. They are mostly highly sensitive to changes in the general economic climate. But, in addition, there have also been shifts in the steel users' inventory policies and in steel's position in foreign trade. These have contributed significantly during the past two years to the decline in demand for steel.

Autos biggest user

The automobile industry is the biggest single user of steel. In an average year, auto makers take one out of every five tons of steel shipped. Before the advent of the compact car, about two tons of steel went into every car produced.

To eliminate some of the short-term distortions in the pattern of steel shipments owing to the strike in 1959, steel shipments in that year and the first nine months of 1960 have been compared with 1955.

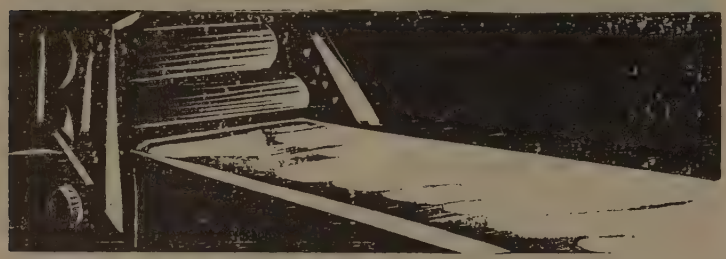
In 1955 almost eight million automobiles were produced in one of the great marketing operations of our day. With much eased credit terms, a dazzling array of new models and a highly favorable economic climate, car sales smashed all earlier records and set a new one that has not yet even been approached.

Auto output in 1959-60 fell short of this record by 15 per cent. The same percentage drop in the industry's steel purchases would mean about 2.8 million tons less. This calculated drop falls short of the actual four-million-ton decline by an amount almost exactly equal to an estimate by the Commerce Department of the reduced steel consumption of the new compact cars.

This slide in sales to the automobile industry accounts for perhaps 40 per cent of the total drop in steel shipments since 1955. Hence, we will be a long way toward grasping what has happened to the steel industry when we have got some notion of why automobile sales have declined.

We may reject at the outset one opinion occasionally voiced, the idea that Americans have become less car conscious. According to estimates by the Bureau of Public Roads, between 1955 and 1959 passenger cars racked up a 15 per cent increase in miles traveled.

We must also reject the view that the car market is "saturated." Figures on car ownership show that it is closely related to income: almost half of the families with annual incomes under $5,000 do not own a car, while only seven per cent with incomes over $5,000 are without one. Two or more cars are owned by 39 per cent of those with incomes over $10,000, while only 13 per cent of those with incomes between $5,000 and $7,500 own more than one car. These facts clearly show how rising incomes at almost any point in the income scale would result in an increased demand for cars. A great new market will open up with the first big upward push of incomes.



Lag in income

The cause of the lag in automobile sales—and this analysis is relevant to household appliance sales as well—is a lag in income. Incomes have not actually *fallen*—in fact, between 1955 and 1959 after-tax personal incomes, in terms of constant prices, rose 2.7 per cent per year. But in the preceding eight-year period, the rise averaged 3.9 per cent annually—almost half again as fast. Also, in no one year since 1955 has consumer income risen as much as it did in that year.

The great significance for automobile demand of increases in income is indicated by a number of statistical studies which show a strong relationship between the two variables. Underlying these studies and explaining their results is the theory that the readiness of consumers to *own* cars depends on their incomes. When incomes rise rapidly, consumers seek to own more cars—that is, they buy new cars. The faster incomes rise, then, the more new cars will be bought. A slowdown in income growth would, therefore, result in a declining demand for cars. Such a slowdown has occurred since 1955, with the expected effect on automobile demand and, as a consequence, on steel output.

We find that our low rate of growth since 1955 has had profound effects on the volume of business investment. The upsurge in aggregate demand during 1955 led many businessmen to launch vast programs aimed at expanding their productive capacity, in anticipation of further demand increases. Those anticipations were soon disappointed, however, and by 1957, when the bulk of the investment programs launched in 1955 had reached completion, manufacturing industry was suffering from a heavy burden of excess capacity. In two years the operating rate in manufacturing dropped from 92 per cent of capacity in late 1955 to 78 per cent in late 1957. Even in late 1959, when the steel industry was operating at full blast under the aegis of a Presidential injunction, the operating rate for all manufacturing had only recovered to 85 per cent of capacity.

Faced with such a great excess in existing capacity, it is understandable that businessmen should have ceased to invest great sums in additional capacity. Between 1955 and 1959, the volume of private nonresidential construction and the output of producers' durable equipment—both measured in constant dollars—fell about five per cent. (The decline from the 1957 peak was 11 per cent.) Over the same period shipments of steel for construction and equipment fell more than 10 per cent, accounting for roughly one-third of the drop in steel shipments.

There is clearly a discrepancy here between the five per cent drop in investment and the 10 per cent cutback in shipments of steel for investment goods. In large part, this discrepancy is due to a greater-than-average reduction in investment expenditures by two particularly heavy users of steel—the oil and gas industry and the railroads. These two industries, which together account for about one-fourth of the steel used for construction and equipment, have both had well-publicized difficulties in recent years. These difficulties are not unconnected with the movements of the economy as a whole.

Railroads are particularly sensitive to the business cycle, and since a good deal of their freight business comes from hauling coal and iron ore, the decline in the fortunes of the steel industry has already affected them. In petroleum it is the *growth* of demand which is sensitive to general economic movements, and thus investment in the industry reacts sharply to changes in the economic climate.

Rails and oil

Total plant and equipment expenditures by railroads measured in current prices were unchanged between 1955 and 1959. But during that time average prices of plant and equipment rose 18 per cent. Thus, railroad investment, *in constant dollars,* fell about 15 per cent—a much greater drop than in most other industries. Similarly, capital expenditures of the petroleum industry fell three per cent between 1955 and 1959—equivalent to a constant-dollar drop of about 18 per cent. Thus, the railroads and the oil industry, which use a greater-than-average quantity of steel per investment dollar, cut back their investment by a greater-than-average proportion. This was in large measure responsible for the fact that the drop in shipments of steel for investments was greater than the decline in total investment.

Thus far we have seen that declining demand for consumer durables and investment goods together accounted for over 70 per cent of the total drop in domestic steel shipments between 1955 and 1959. The remaining steel sales are mostly ship-

ments whose market destination is undetermined—mainly those to warehouses and distributors. Still to be discussed, however, are two factors which have had an unusual, though not decisive, impact on the steel industry's sales in the past two years. These are inventory movements and foreign trade.

According to estimates made for *Fortune* by Alan Greenspan, a well-known economic consultant for the steel industry, inventories of finished steel in the hands of users and distributors have fallen by three or four million tons since 1958. The bulk of this reduction occurred, not in the strike-torn year of 1959, but in 1960.

To some extent, cutting back steel inventories was a reaction to falling profit margins during 1960; also, it represented a retreat from the excessive optimism of early 1960, when inventories were built up in expectation of sharp increases in demand. But another important factor is that steel users have permanently drifted away from holding heavy steel inventories. This is because there is no longer any danger that the order books of the steel companies will get too overloaded to permit prompt billing of new orders. The excess capacity of the steel companies has taken the place of large inventories in the hands of steel users.

In 1955 the United States imported roughly a million tons of finished steel, and exported three to four times as much. Since then, however, two major factors have intervened to even up the balance between steel exports and imports.

One has been the amazingly rapid growth of the West European economy. While this growth has created a greater demand for steel products, it has also been accompanied by a substantial expansion of steel-producing capacity, enabling West Europe's steel needs to be met more fully from domestic sources. The region's growth has provided it with the productive facilities to enter more actively into the American market.

Second, because this newly installed capacity, incorporating the latest technological advances, is so much more productive than the older American plants, European producers have been getting an increasing price advantage. Thus, while steel prices in the U.S. rose by about one-fourth between 1955 and 1959, in France they rose only two per cent and in Germany only 11 per cent—despite general wage increases of over 30 per cent.

European productivity in steelmaking has risen faster than ours as a result of the destruction of steel mills during World War II. In the steel industry, where productive facilities are of such long life, technological advances can normally only be incorporated very slowly, as old equipment is gradually retired. But much of the European industry has had to be completely rebuilt. Consequently, a much greater proportion of its equipment than ours is of relatively recent vintage. The *average* productivity of European equipment is therefore higher, giving that region a trade advantage in steel.

Because the demand for steel is tied to the growth of the economy, it would take a dire pessimist indeed to predict that steel's present troubles will long continue. The number of new young workers entering the labor force will rise rapidly during the 1960s, from the two-million-a-year rate at present to a rate of three million a year by the end of the decade. Either the GNP will grow at a record pace, or unemployment will. Assuming the former, consumer investment in durable goods, such as autos and appliances, will progressively swell.

These sales will be in response to the needs of the mounting wave of newly formed families, as well as to the desires excited by rising incomes generally. Investment by business will also be stimulated, as growing output gradually absorbs the excess capacity that now discourages further investment. Thus, if we avoid economic catastrophe, the 1960s should prove, for steel, to be a decade of steadily accelerating expansion. This will restore the industry to its former position as a basic growth industry. ■

Ankara's new regime

YOUNG TURKS AGAIN

by KEMAL H. KARPAT

■ IN TURKEY the government of Adnan Menderes came to a sudden end on May 27, 1960. It was swept aside by a *coup d'état* engineered by young army officers headed by Gen. Cemal Gursel. The revolt aimed at reinstating the democratic freedoms which had gradually been abolished by the Democratic party government of Menderes. Discontent had been mounting for several years, and behind the coup was a social and economic ferment.

To understand modern Turkey it is necessary to go back to the establishment of the Republic in 1923. In that year Mustafa Kemal (later Mustafa Kemal Ataturk) began to transform the country. The downfall of the Ottoman Empire had left the economy ruined. The population was illiterate, immersed in fatalism and inertia—conditions that had been perpetuated by lack of freedom and by traditions of abject obedience and hero worship.

Through the Republican party, Mustafa Kemal embarked on a monumental program of economic development, governmental organization and mass education. His aim was to create a modern country based on thinking, self-reliant and creative individuals.

The methods used were harsh and

the results often fell short of the goals desired. Nevertheless, by the end of World War II Turkey had established the basis of a modern national economy. Though the great majority of the population was still comprised of peasants, a relatively large intelligentsia had been educated in modern schools. There was a middle class with liberal attitudes and enough capital to envisage undertaking economic ventures. There was also a relatively small number of industrial workers.

Differentiation and diversification

Social differentiation, accompanied by diversification of interests and opinions, had come to Turkey. Individualistic and progressive concepts that emphasized action and resourcefulness had undermined the old ideas of monolithic society and absolute government. Demands for adjusting the government to these new conditions were heard on every side. The decision to adopt a multiparty system provided some answer to these demands. It also conformed to the long-standing ideal of the Republic and was pleasing to the West with which Turkey had cast her lot.

Under these conditions the Democratic party was established in 1946. Its leaders were Celal Bayar, Adnan Menderes and a few others who had belonged, until a few months earlier, to the ruling Republican party. Celal Bayar had been Prime Minister in 1938 and 1939, and was remembered for his statist economic policy as well as for his harsh methods of implementing it. Adnan Menderes, a rich landowner, was a relatively obscure figure until 1945. In that year he won national attention as the spokesman for the Agricultural Committee during the debates on the land reform bill.

Menderes, backed by a sizable number of deputies who supported the interests of the landowners, opposed the extreme expropriatory provisions of the bill. The intense debate taking place on this occasion between those advocating expropriation and those against it cast light on the dire condition of the peasantry and indicated the urgent need for measures to alleviate it. In the debates, Menderes distinguished himself not only by his brilliance and eloquence, but also by proposing farm credits and modernization as an alternate policy to extensive expropriation of land. Although the bill became law, the strength of the opposition prevented extensive expropriation of private estates from taking place.

When Menderes emerged as a founder of the Democratic party, he found behind him a sizable group of landowners and businessmen. These followers were unhappy with the Republican statist policies, and they could provide financial support for the new party. To them was soon added a conglomerate group of dissatisfied individuals from other economic strata ready to follow any leader and any movement that would criticize the government and propose changes.

The *haves* and the *have nots* had come together under one magic idea —democracy as a panacea for all evils. But the shouts for democracy expressed different ideas and different yearnings. To the diehard conservatives and Islamists, democracy meant a return to traditionalism. To the surviving feudal lords in eastern Turkey, it meant resumed domination over the peasants. To the intellectuals it meant a new step toward modernization.

The Democratic party leaders brought together these different groups with conflicting views and formed one strong organization. They promised that once the Republicans were ousted, all grievances would automatically be settled. The Democrats successfully used their organization to build public opinion into the chief political force. But they did not foresee that, eventually, this force would turn against them. The politcial struggle between 1946 and 1950 cast little light on the subtle meanings of democracy, but it made everyone aware of *what democracy was not,* namely suppression of freedom, whatever the pretext.

When elections were held in 1950 the Democrats won by promising liberalization and democracy. These were very adroitly contrasted with the Republican's strong-handed methods during the latter's one-party rule. Obviously, the Republican record of achievement had not impressed the voters who wanted democracy and were convinced that a Democratic victory would produce it.

Turkey's progress toward democracy, her strong stand against communism and her strategic position were sufficient reasons to induce the United States to grant her generous military and economic assistance. The aid started in 1947 in the form of military assistance and, especially after 1950, expanded rapidly into the economic field. At this point in her history Turkey needed a massive economic program to fulfill her dreams of economic progress. American aid provided an answer to the desire for material progress. The aid, supplemented by assistance from other Western nations, increased rather than quenched this thirst.

Turkey's economy is based on agriculture, which still supports the majority of her 27 million people. The average per capita income is low, about $250 a year. Large mineral resources, including coal, iron ore and petroleum, provide a good basis for industrialization. But in this land that is somewhat larger than Texas there now exist only the beginnings of modern industry. These facilities were largely built and are operated by the state.

Farm mechanization

The American economic aid enabled the Democrats, hard-pressed to reform agriculture, to promote an extensive program of farm mechanization. This, supplemented with tax exemptions for farmers, created an unprecedented economic boom in the villages. Some relaxation of state control led to private investment in industry. The government's own program of road and hydroelectric development also stimulated the economy.

When new elections were held in 1954 the Democrats swept them with a margin greater than in 1950. Their victory convinced them that economic development, whatever the price and consequence, was the cure for all ills. The old promise of consolidating democracy by means of constitutional amendments and special institutions was cast aside, and the government embarked on economic plans more grandiose than ever.

The pulse of life in the country quickened as the new economic ac-

tivity created more employment opportunities and as the rural areas were connected to large centers by a good road system. Adnan Menderes' economic policy, presented to the public with the artifices of a rather captivating personality and a well-displayed patriotism, secured him a large and faithful following, especially in rural areas. (A few months before the revolution, when he visited Tarsus, one of his followers was prepared, like Abraham in the Old Testament, to sacrifice one of his sons for Menderes' glory.)

Something basic

Under the Democrats, Turkey had made enormous progress. Yet, despite all this material progress, people began to turn away from that party. In the 1957 elections the government trailed behind the combined votes of the opposition parties. Nevertheless, it won a comfortable majority in the Assembly (424 to 186 seats) because the vote against it was split among the opposition parties. Significantly enough, the Democrats suffered their defeats primarily in the overwhelmingly rural eastern provinces.

Something very basic was wrong; in fact, so wrong that it could not

be corrected by superficial measures. Economic development was based on heavy capital investments and foreign loans. Industry was not founded on the country's prime resources—agricultural products; instead, it tried to provide many products that served the needs of the urban consumer. In reality, the economy was geared to meet the needs of a small minority rather than stimulate the great majority to produce. The communications system was based on motor vehicles, and Turkey neither manufactures such vehicles nor extracts enough oil domestically to run them.

The social effects of unplanned economic development were even worse. The growth of industry swelled the number of industrial workers from about 400,000 in 1950 to over a million in 1960. Wages remained low and living conditions were unsatisfactory. Trade unions were formed and demanded rights for labor, including the right to strike. The government tried to placate labor by providing some material benefits and to lull discontent with paternalistic advice. When all this proved unavailing the government abruptly suppresed the more daring trade unions. Discussion of labor problems became taboo, for such discussion was regarded as conducive to leftism.

The worst effects of the Democratic policies were found in the countryside. The 40,000 tractors procured to mechanize agriculture went into the hands of a small group of upper-income farmers. These favored persons built fortunes rapidly and spent them lavishly on luxuries and housing. The machines replaced farm tenants and sharecroppers who were forced to seek employment in cities. Crowded into unsanitary shack towns, they became foci of discontent.

The poorer farmers, and Turkey is predominantly a country of small farmers, continued to work their land by old methods. They had, it is true, no taxes to pay and were free to lead their lives in the traditional way. But discontent began to spread among the small farmers as well. They were no longer satisfied with the trifling benefits of tax exemption. Tales of economic development and fast enrichment reached them and sharpened their desire for a better life. They demanded more aid and more welfare.

This was, indeed, a strange shift. The government, which the villagers had feared and obeyed like a divine creature for centuries in the past, now begged them for their votes and offered them many benefits in return. This odd deal carried the name of democracy and the emboldened villagers were all for it.

Dire circumstances

The demands became so great that only a huge assistance program could have met them. The rural front, which had supported the Democrats, became dissatisfied and began to crack wide open. This front had brought the rich and the poor farmers together in a union of interest at the expense of the white-collar workers and the industries that paid taxes and supported the public services. As a result, the white-collar workers, squeezed by inflation and the high cost of living, found themselves in dire circumstances.

The city and the village had had divergent interests. Now they began to come together in discontent—the former because it had paid too much, the latter because it had not received enough.

The Democratic party's strength was concentrated in small rural towns. These centers are generally conservative, intensely religious and definitely antimodernist in cultural matters. But they are progressive as regards the use of machinery and economic advancement. In order to hold their allegiance, the Democratic party made extensive concessions on religious matters and adopted an increasingly conservative attitude. Large funds were allotted for building new mosques. Anti-intellectualism increased. Progressive publications were suppressed. Universities were accused of becoming leftist centers. The narrow cultural outlook of the small town became fashionable, and piety was regarded as the greatest human virtue.

It seemed as if cultural regression was deliberately promoted to prevent an intellectual reaction to economic and social changes. The need for electoral support pushed the Democrats to the extreme right. This violated the principles on which the Republic had been built.

These principles included secularism and populism. The former calls for the separation of religion and the state and preaches the deliverance of the mind from the hold of dogmatism and traditionalism. The latter implies the emancipation of all citizens through education.

This new Democratic policy completely alienated the intellectuals. The political struggle became once more a fight between the *old* and the *new*. But, as we have seen, many others besides the intellectuals were dissatisfied. Rumors of corruption and mismanagement in the ranks of the ruling party added fuel to the discontent. Criticism of the government became so intense that the Democratic leaders could either let the people choose a new government or suppress the opposition. They took the second course and thereby sealed their doom.

In the spring of 1960 a committee with dictatorial powers was set up to investigate the opposition. This was considered the Democrats' final drive to assume absolute control. Protest meetings by students and military cadets followed. Menderes turned to the army to curb the opposition and repress the students. The army's noninvolvement in politics was a basic principle adopted by Ataturk and rigorously observed until last April. Ismet Inonu, the head of the opposition Republican party, sternly warned the government that if it used the army for political purposes, it would find its orders disobeyed. The government did so and, as a result, was toppled by an army coup.

Urgent need

Only a few weeks after it came to power, the military junta, especially the younger members, began discussing the urgent need for social reforms such as land distribution, general education, socialized medicine and a thorough secularization. The talk about social reforms became so intense at one point that the re-establishment of a multiparty democracy, the initial aim with which the military came to power, seemed to fade away. Instead, an over-all drive for social and economic modernization seemed to become the junta's goal. There were weeks of strife within the junta until the moderate wing prevailed and the extremists were ousted and assigned to overseas posts.

All this was carried out without any violence or any restrictions on the press or public. A strong popular coalition in favor of democracy, made up of intellectuals, press, businessmen and peasants, thwarted and discouraged all attempts to establish an authoritarian government.

The demand for social progress, however, remained as strong as ever.

Thus, the new intelligentsia, whose influence has been on the rise for the last two decades, had won a great victory. These intellectuals came from the grass roots of Turkish society and represented a new social-democratic spirit. They had been trained at government expense for teaching and professional jobs. Most of them were from lower middle-class and peasant families. In fact, the overwhelming majority of Turkey's 35,000 teachers and an equal number in other professions, including army officers, come from these social groups.

The ideas of democracy and freedom found wide acceptance among many of these intellectuals. Democracy for them meant not only equality of opportunity and status, but also a method for overcoming the social and cultural backwardness of the social groups from which they had sprung. Had these intellectuals been educated in the days of the Empire, in the aristocratic tradition, they might have struggled to identify themselves with the ruling circles. But, in a democratic era, their scientific training turned them back to their own people and their problems.

The Democratic party has been dissolved. But the chain reaction of social and economic forces that it set in motion will continue to affect Turkish life. The Turks will continue to demand a larger share of material welfare and freedom. These are legitimate demands and nobody can ignore them. Whatever political party comes to power in the future must satisfy these demands.

Under the military junta, economic problems loom large. A national planning board has been established to devise a program of development in accordance with the country's needs and resources. Commissions on education, land and health reforms are active. The government, though basically adverse to additional indebtedness abroad, has been forced to seek new loans to stabilize the economy and cover the trade deficit.

On the politcial front the junta continues to support NATO and CENTO. Internally, the National Unity Committee, which now wields power alone, has become the upper house of a Constituent Assembly. It shares power with a lower house composed of nominated civilians until a popularly elected assembly is convened. The national elections seem scheduled for sometime in 1961, and the ban on political activities has ended. New political parties (Social Democratic) are being established.

A new constitution is to come into operation as soon as ratified by the Constituent Assembly. There is nothing to prevent Gen. Gursel from handing over power to a civilian administration once the proper legal foundations for a stable democracy have been established. Thus, the revolution of May 27, 1960, while it did not solve many of the outstanding social and economic problems of Turkey, did, at least, establish the foundations on which such solutions may be built. ■

CHALLENGE NOTES

Sidelights on the passing economic scene

NASTY WORD—Recently, economists have said that the economy "is moving sideways on a high plateau"; that there are "negative" signs in the economy; that there is "high-level creeping stagnation"; that the present "adjustment" is gentle.

► *For thousands of years people have believed that it was unlucky to call something unpleasant by its right name. Is it possible that the economists were talking about a r-e-c-e-s-s-i-o-n?*

° ° °

AUTOMATION MEETS ITS MATCH—A Los Angeles corporation that makes outboard motors automated its plant. One problem, however, proved very difficult. An automatic system for removing metal scrap was designed, but it would have cost $180,000, and this expenditure could not be justified. The solution to the problem was: one man with a wheelbarrow!

° ° °

NO NEWS IS GOOD NEWS—*Printers' Ink* sees a boom for advertising in the decision of the American Iron & Steel Institute to stop publishing the percentage-of-capacity operating rate. Heretofore, a low steel rate has tended to worry businessmen—who were apt to react by cutting advertising expenses. But if the steel rate is not known, business will be less apt to worry—and more apt to maintain higher ad budgets.

► *Ignorance is bliss.*

° ° °

STATUS OF GRASS—The grass in front and back of suburban dwellings represents to the middle class both a status symbol and a sanctuary, according to a recent research study. Moreover, asserts the study, in a neighborhood with high morale and strong group interaction, lawns are usually neat and healthy. If, in such a neighborhood, a few lawns are neglected, it can be assumed that the owners of these lawns do not want to be part of the community and are not accepted by it.

► *The moral is clear: if you want to achieve status, you can't let the grass grow under your feet.*

° ° °

MAD FINANCE—At a price believed to be several million dollars, Premier Industries, Inc., recently bought E. C. Publications, Inc., publishers of *Mad* magazine. Though *Mad* takes no advertising—and, indeed, devotes much space to satirizing advertising—its net profit has been growing steadily. It is estimated that the magazine will make about $1 million in 1961.

► *As Shakespeare said, "Though this be madness, yet there is method in 't."*

° ° °

HENS ON THE PRODUCTION LINE—A new "push-button" egg production system has been unveiled by Nutrena Feeds. It features slightly tilted nests from which eggs roll onto plastic-covered conveyor belts; automatically replenished feeders; and a constant supply of water, grit and oyster shell. Thermostatically controlled fans lessen the effects of outside heat and cold. Automatic lighting stimulates the hens' egg production.

► *Now, if we can only get rid of those nesting hens!*

° ° °

HOW TO AVOID A HEART ATTACK—An ad man has come up with a seven-step recipe for relaxation aimed at preventing the occurrence of coronary thrombosis among his busy colleagues. The suggestions offered include: (1) Get a cat. (Putting your hands on the back of a purring cat is very relaxing.) (2) Take a course in painting. (You have to wait—and relax—between steps for the paint to dry.) (3) Lose yourself from time to time in a favorite old textbook. (How relaxing to dream old dreams!) (4) In the office, look out the window several times a day. (If you don't take time to *look*, you may one day *jump!*)

► *Might be better to jump at that!*

° ° °

THE MIDDLE MASS—In a review of the state of business education in the United States, published by the Ford Foundation, appears the following provocative statement:

"The right of poorly prepared students to spend four years in a college program of indifferent quality or worse is what many Americans mean by democracy in higher education."

° ° °

SEW, WHAT!—A New England adhesive manufacturer has, through his attorneys, served notice on all publishers of English dictionaries that the definition of the verb "to sew" is incorrect. The present definition, "to unite or fasten together with a needle and thread," is, according to this manufacturer, "obsolete and misleading" and "does incalculable damage to the important adhesive industry."

► *We think the present definition will stick without adhesive tape.*

° ° °

GLOBAL STATISTIC—If all the checks written in the United States were laid end to end, according to *Banking*, the journal of the American Bankers Association, they would stretch 65 times around the earth.

► *Is that what is meant by the circulation of money?*

° ° °

FINANCE GOES UNDERGROUND—The First National Bank of Boston has opened an underground records storage center at Pepperell, Mass., 42 miles from Boston. The center is designed to be unharmed if a 20-megaton hydrogen bomb fell more than three miles away. Nine other financial institutions have leased space in the center. "The Boston banks," said Roger C. Damon, President of the First National Bank of Boston, "have recognized the responsibility of the banking industry to protect its basic financial records against destruction in the event of a national disaster."

► *Any room for people in those vaults?*

Challenge Interview

R. HEATH LARRY

Administrative Vice President, Labor Relations
United States Steel Corporation

Communicating with Employees . . . How? And What?

Q *Mr. Larry, as Administrative Vice President in charge of Labor Relations, you have a real professional stake in the attitudes and opinions held by the employees of the United States Steel Corp. There have been moments, have there not, when you wished that these attitudes and opinions were somewhat different?*

A Certainly there have been times when I wished they were more amenable or, perhaps I should say, understanding. Of course, there are many factors that enter into good or bad labor relations, and I hope we will have an opportunity to discuss some of these later on. Actually, I don't believe the problem is one of getting employees to think like management on every matter, or vice versa. Certainly, in a free country, we don't expect everyone to think alike. What we would like to see is more in the way of broad understanding—a sort of consensus on general objectives, a consensus around which labor and management could hopefully work out, in a spirit of mutual respect, the particulars of specific issues on which there may be conflict or at least strong difference of viewpoint.

Q *The post-World War II era has seen a considerable stepping-up in management's attempts to communicate with employees. During the past decade especially, management has become intensely interested in so-called economic education. Are we carrying you too far afield if we should try to get your views on this particular aspect of communication?*

A No, that's all right. Employee communications programs are not my specific responsibility, of course. But as you pointed out before, anyone concerned with collective bargaining in particular, and labor relations generally, has a real concern for the opinions and attitudes of employees. After all, what the outcome of labor-management negotiations will be can probably depend as much upon the understandings and attitudes built up before we enter the conference room as upon the course of the actual negotiations. The attitudes of employees, the pressures which they may place upon their union leaders, or their willingness to rally behind views about which they may or may not have any knowledge or feeling—all of these considerations, I think, make economic education of considerable concern to everyone in management.

Q *Most of the large companies have a variety of communications tools. In their efforts at economic education, articles on economic ideas and problems are placed in house organs, or presented as special pamphlets and booklets. Does U.S. Steel follow this procedure?*

A Yes, our *U.S. Steel News* discusses a number of economic problems, some of a general nature and some directly related to company matters or a man's job with the company. Beyond that we get into what might be called general economic education with booklets placed in our reading racks. Of course, the reading racks provide an opportunity for voluntary education about a wide variety of subjects—from helping to develop an understanding of our economic system to building a game room in the cellar. These booklets are available free of charge, and the employee can pick out whatever reading material may interest him or his family.

Q *Does management consider this reading rack service as a sort of fringe benefit?*

A Some might call it that. I would rather think of it as part of an effort to make available to the individual tools by which he can help himself to be a really constructive citizen in our type of society.

Q *You undoubtedly put materials concerning economics in this category, don't you?*

A Obviously. Someone once said that a free society is not one which is inevitable—not one which will continue to exist merely as a consequence of some magical momentum. It is not going to remain free unless enough people care enough. And people aren't going to care enough unless they understand it well enough. In terms of economic understanding, this means that people must know and appreciate what is involved in the enterprise spirit; what is involved in the process of saving, investing and marshaling all of the other resources that go into the creation of jobs; and how the opportunity for profits is the principle motivation of a free society. In other words, they must understand the necessary ingredients for a successfully operating free enterprise system. If they don't, they may be tempted to throw some of these ingredients away. That is why I say that people have got to care enough to try to understand what it's all about.

Q *You used the word "understanding" several times. In your opinion, how well has the material in employee education programs furthered understanding of our economy?*

A I believe that it has begun to bear some fruit, although I have a feeling that while industry's commitment to economic education programs has increased markedly during the past 10 years, our ability to communicate effectively has not by any means kept up with our appreciation of the need for it.

Q *Then I take it that you are not satisfied with the response to management communications efforts.*

A One should never, I suppose, become fully self-satisfied with either the efforts—or the response. There is, to be sure, considerable room for improvement. There are many reasons behind what might seem a disappointing response to management communications programs in general, and possibly to economic education programs sponsored by industry as well. Not all of them can be laid at management's door. Be that as it may, a less than satisfying response to communications efforts in the past can be no excuse for failure to keep trying. There is some evidence that over the years a change in the climate of employee opinion has been taking place.

Q *In what respect?*

A Well, there are encouraging signs that employees are beginning to understand that collective bargaining is not just like a rainbow at whose end can be found a pot of gold for the asking. They are beginning to understand that inflationary wage increases are bound to fall out in increased prices. They are beginning to see first-hand the impact on our shores of the products of foreign labor. After all, several decades of painful experience can scarcely be ignored, and thinking employees are beginning to question a lot of things they have taken as gospel for a long time.

Labor and management must progress together

Q *Mr. Larry, communications programs, particularly those termed economic education, have been criticized in some quarters as pure management propaganda. What comment would you have on that type of criticism?*

A You are asking me whether we are trying to get across, in the educational process, acceptance of objectives which might be bad for employees as a group. The answer is definitely no. We must all realize that in this country employees as a group cannot progress unless the institutions through which they are employed also progress. It is equally true that the institutions that do the employing cannot continue to exist and progress unless they find people to whom they can sell goods and services, and this includes employees. All of these groups have got to move together. So I see no conflict at all between the interests of employees and the attempts of management to disseminate information intended to further understanding of economics and business.

Q *Do you draw a distinction between the understanding of basic economic concepts and an appreciation of the special problems of a particular industry?*

A Of course, there is an interaction between these two types of understandings. An understanding in each area contributes to understanding in the other. In terms of the everyday decision-making process of a man or woman who works for U.S. Steel, or any other company for that matter, a familiarity with broad economic concepts which might be acquired through the pedagogic process has to have a practical application at times. On the other hand, there is some question in my mind as to whether an economic education program, as such, should be tied too closely to a program of communication which seeks to familiarize employees with the problems and objectives of a sponsoring company. I have wondered whether, in the exercise of communication techniques, the two programs might be handled separately, even though there may be a complementary and simultaneous effect in their practical application.

Q *Do you believe that such an approach would add credibility to a company-sponsored education program?*

A I think that is quite possible. Even in a situation where relationships between a union and a company are not in a period of crisis, there may be a tendency to suspect motives—to consider that what the employer says may be self-serving propaganda of a kind keyed to an area of potential or actual dispute. This problem is overcome in part by trying to make the communications effort. Therefore, the effort to create a better climate of economic understanding must be virtually a continuous one and one which, for the most part, does not include specific recommendations on particular issues which may become subject to specific bargaining. Such economic education efforts should simply try to encourage understanding of those concepts that prevail in the proper workings of an economic system in a free society. It would also help to have some of the viewpoints expressed on economic matters come from sources outside the company.

Goals of educational effort

Q *Then economic education, as you conceive it, ought not to be tied in all respects to a particular point of view that the company itself wants to advance to help its own position on an immediate and specific problem.*

A I don't believe by any means that all of our educational or communications efforts should be tied to an immediate and particular problem of a company or of a specific job with that company. After all, an educational effort has several broad goals to serve. It should aim to help an employee generally to become a more understanding citizen in a free enterprise economy. A decision he makes as a citizen may relate to fields far beyond any point of immediate reaction to a problem at his work place, even though it may in some way bear on the climate affecting his employer and his job. It may relate to his function within his own community. It may relate to his function as a voter, to his function as a spender of the money he is earning or as the manager of his own household. In other words, an educational program may relate to a broad complex of ways

in which he can demonstrate a proper understanding of economics and exercise the responsibilities of freedom.

Q *What is the justification behind the expenditure of corporate funds on an economic education program which may appear to have very little to do with improving the efficiency or profit-making potential of a company?*

A I should think that there would be no problem in justifying the expenditure of a proper amount of money for such efforts. It seems to me that we have been pointing up the reasons as we have gone along. First of all, private corporations cannot exist if we do not retain a free competitive enterprise society. It is important, therefore, that people understand the workings of a free society. You can look at it very selfishly and say that we want to preserve a climate in which a corporation can continue to do business. But understanding the economics of a free society has its broader aspects and is a challenge to the exercise of the responsibilities of any American citizen. People must understand that there is no such thing as a something-for-nothing society, whether it be free or otherwise. And this leads to a second point. The decisions that are made, the conclusions that are accepted—willingly or unwillingly—at the time of a major union negotiation, are certainly of tremendous importance from the standpoint of economic impact. Surely if a wider understanding of sound economics can contribute to sounder results in collective bargaining, and to a lessening of strife—both of which are real possibilities—expenditures of this kind are not only justifiable, but necessary. So while it is difficult to measure precisely how much money should be spent to encourage an understanding of our economic system, I think it is far from an abuse of corporate funds to engage in activities of this kind.

Contribute to outside agencies

Q *Would you say that for some reason or other the work force, or the public at large, needs such additional information or education as management can provide?*

A That is a major part of the reason why a business organization finances educational or communications programs. You are, no doubt, aware that the expenditure of corporate funds on education is by no means confined to the efforts of industrial relations departments or employee communication offices. Business and industry each year contribute considerable sums to the research activities of outside agencies, universities and other institutions serving the public cause. Therefore, the business commitment to a furtherance of economic understanding involves more money than the sums expended on direct communications media such as house organs and rack booklets. One finds a fairly large amount of either misinformation or ignorance which represents a problem to anyone who would like to have a constructively operating work force and a constructively operating corporation. And, of course, this misinformation or lack of information spills over into the area of concepts that enter into the most efficient and constructive operation of a free economy as a whole.

Q *You are suggesting, then, that the educational institutions of the nation have been somewhat deficient in their teaching of economics.*

A I personally do not feel qualified to endorse such a sweeping statement. But I am aware that in recent years educators themselves have stepped up efforts to improve the economic content of curricula, especially in our secondary school systems. I would suspect that the public's lack of knowledge of economics is quite significant. But, I don't think that any single corporation or the business community as a whole should directly take upon itself the burden of a general economic education program for the United States. The business community has a direct interest in furthering economic education, and for that reason I think we can and should devote a proportion of our communications programs to advance the cause of economic literacy.

Q *What has been the attitude of unions toward business efforts to issue economic education materials?*

A I have been a little disappointed by the reactions of union officials. Basically, the union people with whom we deal evidence a realization that no enterprise is going to be worth anything to anyone, including union members, unless it is a profitable one. Also, they express the view that they have no desire to overturn the free enterprise system. I think they believe that this system provides the way that their members and our employees can achieve the greatest progress. Yet there seems to be the feeling that any effort at economic education—at employee communication—either broadly speaking or in terms of the corporation's problems, represents an attempt to operate behind their backs and undermine their position. This, of course, is not so.

Q *Has the union objected specifically to any article or booklet that your company has distributed?*

A I have no recollection of any specific objection. No one has said that it is beyond our right to put whatever we want into our various communications media. But nearly every time we speak of a desire to carry on a program of economic education, the union makes public statements suggesting that our program somehow represents an antiunion attitude.

Q *To what do you attribute such a reaction?*

A This puzzles me a great deal. One would get the impression that unions fear employee loyalty to, and understanding of, the problems of the employer as something incompatible with loyalty to the union. The time has long passed for unions to take refuge behind the claim that employers are trying to destroy the union movement by indulging in the constitutional privilege of free speech. And that is the only privilege management is exercising when it tries to help employees understand the economic facts of life from the standpoint of our free enterprise society. It's time the unions accepted the fact that everyone knows unions exist and that they are going to continue to exist unless and until they abuse the privilege of existence. This defensive attitude on the part of unions makes it difficult to develop a constructive approach to labor-management relations. It becomes awfully difficult to make any real progress in the field of economic understanding. Of

course, such understanding, if it could be achieved, would contribute a great deal to better relations during periods of labor-management negotiations.

Q *Do you believe that a greater knowledge of economics on the part of the rank and file would have an effect on the policies adopted by the union leadership?*

A I would certainly hope that it would. By their own admission, unions are political organizations in the sense that the leadership is elected by the membership. This being the case, it is up to management to help make a climate in which it can be "good politics" for unions to follow policies that assist rather than harm the interest of the enterprise of which employees are a part. Only in this way can unions and management combine to make possible the fullest employment of American industry in the service of the nation.

Q *Just how would better communications on economics contribute toward creating a good "political" climate?*

A The increase of knowledge has tended, throughout history, to reduce strife, to enable reason to be substituted for force. Employees themselves are, or ought to be, the heart of any labor organization, just as they are the heart of the business organization with which they have associated themselves. It gives management no comfort to see employees hit the bricks in support of demands which they may not understand and may not care about. It gives management no comfort to hear that some union employee is not interested in a particular issue because he is paying x dollars a month to a union leader to do his thinking for him.

Q *Is management responsible for this?*

A Yes, certainly in part. We in management have considerable room for improvement—and we are trying. For too long management has acted as if a union-represented employee was just that—"union represented." In actual fact, an employee is still an individual whose progress and livelihood are unalterably intertwined with the progress and fortunes of our economic system and of the enterprise with which he is associated. As an individual who has a knowledge of basic economic principles and an appreciation of the economic position of his company, the employee can be a potent force in developing a climate in which constructive labor-management relations can thrive.

The honeymoon was over

Q *Mr. Larry, do various business organizations exchange information on these problems with an eye toward improving communications and industrial relations techniques in general?*

A There are, of course, a number of fairly well-known associations of management representatives in which experience with techniques tried in one situation can be shared with others. Incidentally, I have seen no evidence, in any of them, of any "master plan" designed to use communications efforts to destroy unions. During the last strike nearly all companies in the steel industry cooperatively engaged in what we thought was an educational effort—an attempt to make people aware of the problems and needs of the steel industry as a whole. The reaction of the steelworkers union and of the AFL-CIO was that the objectives we sought in the negotiations constituted a new conspiracy to destroy unions, which of course was not the case. It was simply a growing realization among the steel companies, shared, incidentally, by some other industries, that the honeymoon created by the European vacuum and by other postwar economic circumstances was at an end, and that this country was faced with a new era of highly intensified competition which differed substantially from the situation a few years earlier when there was the big rush to fill postwar needs no matter what the cost.

Q *What effect do these changed circumstances have on the communications programs in industry?*

A They accentuate the need considerably, because when old paths can no longer be trod, some explanations of the facts of economic life become a necessity. We have to start with the frank recognition that our economy is being challenged today in an entirely new sense, and that this is one of the principal facts that is going to color our industrial relations picture in the next quarter-century. Our economy is being challenged by a number of friendly nations, many of whose plants and facilities have been built in recent years. They are able, therefore, with modern methods and lesser hourly labor costs, to challenge, in many areas, the best that we are currently able to do here in America. Serious as this is, we are also being pressed by a totally unfriendly nation whose declared purpose is to destroy our way of life—not necessarily by warfare in the old sense, but by economic warfare waged with the intensity of a pitched battle.

Q *What kinds of questions should the American public be asking itself in view of these developments?*

A It would seem to me that no approach to economic education can avoid considering the basic question of how we are going to meet this kind of competitive challenge. Are we going to meet it by more government planning, by more government intervention in labor relations, by government control of what should be produced, by government determination as to how to meet a prescribed growth rate? I know this—that if our course is going to be to turn to more and more government intervention, if we are going to compete by resorting to the same type of planned economy that challenges us, then the effort will not be worth the candle. I am more interested in the survival of our ideals of freedom—religious, economic and political—than I am in arguing which nation can run a controlled economy more efficiently.

Q *What has all this to do with the type of communications program that you think would do some good with employees and the public at large?*

A Just this. There must be a renewed appreciation of the priceless heritage of freedom. There must be renewed appreciation that ours is a competitive enterprise system—and that what is required to enable it to meet its challenge is to act in ways not designed to add further chains to its already heavy burdens. This goes both for union and government policies.

R. HEATH LARRY

Q *What problems of U.S. Steel do you think are the most difficult to communicate to employees and the public?*

A One of the most difficult concepts to get across is that there isn't any grab bag from which funds can be taken to pay for wages or benefits, whether they have been earned or not—and this is surely not a problem only for U.S. Steel. To meet a rise in these costs is a problem for any industry, particularly in a period when demand for its products is low. Yet people seem to have come to expect a steady increase in wage levels—sometimes for no reason more valid than that a page has been turned on the calendar. But the plain fact of the matter is that if an employer's market is such that increased revenues are not available either through rising sales or through higher prices, then higher costs must fall out in lowered activity and, consequently, fewer purchases of man-hours of labor, all of which may add to unemployment. There is no such thing as a free lunch.

Q *What general economic understandings would you expect an employee to have to appreciate this explanation on the part of management of what the future might hold for American business?*

A Well, perhaps you have to start with the simple truism that a business has to be in business before there is a job. To put it another way, nobody is going to be in business—and hence there will be no job—unless the fellow who is investing his time and money sees a chance for a profit.

The role of profits

Q *Then you would say that the function of profits is one of the fundamental economic understandings that you would like to see put across.*

A Yes, I would say that is basic. You know, the word profit has come to be a dirty word in some quarters. That kind of attitude reveals a damning ignorance of the basic economic functions of profit in the motivation of a free society. Profit isn't something that is left over. It represents the necessary wages paid for the use of capital and all the tools of production. Profit is a reward for creating or maintaining job-producing enterprises. Without a satisfactory profit, nothing constructive will be done—there will be no jobs and no progress —unless, of course, we turn over both our property and our freedoms to the state. Every society in every economic system must accumulate capital in one way or another if it is to invest in its own development. In our society capital is accumulated through the participation of individuals in the economic process and not by the government. In controlled societies the government arbitrarily exacts as much wealth as it deems fit from the people so that it, the government, can do the investing. If people would only understand this, I think they would appreciate the role of profits in our type of economy.

Q *Assuming that an effective communications program does a good job of explaining the function of profits to employees, what other concepts would you like to see understood?*

A The list is almost endless, of course. I suppose that once the necessity for profit is understood, the next thing is to try to dissipate the concept that there is some arbitrary way to define a "reasonable" profit. That, of course, is like trying to define what is a "reasonable" loss. Ultimately, in a free society, the answer must be found in the disciplines of the market place, for here play the forces which make the real determination.

Q *Do you feel that to get across such concepts represents an uphill fight at the present time?*

A I think so. Someone once said that it is a little hard to reason people out of an attitude into which they have not been reasoned in the first place. So the effort may take some time. But the effort will be well worth it, if it succeeds. The world moves on, as we have so forcibly come to learn from developments both among friendly and unfriendly nations abroad. We have got to learn to love change, and in our case this could mean to relearn the principles which have made our economy such an effective servant of the people.

Need for improved economic understanding

Q *Mr. Larry, a free society thrives on a free exchange of information. What place would you give to management communications programs in this process of free exchange of information?*

A Well, I don't think a management-sponsored program can do the job alone. We most definitely need more improved economic understanding all along the way. My feeling is that neither I nor anyone else who is part of the management of U.S. Steel, or of any other corporation, could have all the right answers all the time. As you say, we are a free society, and we depend upon a free exchange of ideas to achieve a distillation which will ultimately direct us to the truth. Education can never be a function of any one segment of our society. Education is a process of sharing knowledge by all segments of society with all other segments.

Q *It is believed in some quarters that automation will prove to be one of the more difficult subjects to handle in an employee communications program during the coming decade. How might the steel industry handle this problem?*

A I wouldn't presume at this point to say how the steel industry will handle the problem. Surely one thing that will have to be done is to put the matter in better perspective. Of course, employees are concerned with anything that may threaten their jobs. In the steel industry, the level of employment or unemployment is always subject to two forces—the cyclical fluctuations of the market and the force of technological change. Neither are new. We find it difficult to isolate just which force can be held responsible in any particular instance of a layoff; but, clearly, the effect of market conditions upon employment is far greater than that resulting from the installation of new and improved facilities. Therefore, technological change is not something which necessarily forces unemployment in a particular industry where it is taking place. As a matter of fact, there

might be greater unemployment if we did not have technological change. We would lose out in the competitive race for markets, and this would have more serious effects on employment and employment opportunities than any job loss that might be directly attributable to automation. Technological change will come, whether we like it or not. It may help both to lighten physical burdens and to expand the markets for an employer's products—if all of its advantages are not siphoned off in the direction of higher labor costs. Unless markets can expand—and labor costs have a bearing on this—the pressure on employment could be significant.

Q *Wouldn't you say that some automation has been introduced purely as a labor-saving measure?*

A That is true, but not the whole story. There are various kinds of automation. Some do very little more than improve quality or increase the quantity of production without affecting the level of employment. Some bring about an entirely new product, making possible the penetration of a new market, which has the effect of increasing employment. And, of course, there are some kinds of technological change which are almost solely directed toward the saving of manpower. From the point of view of a man whose job may be affected by this kind of a development, technological change can have a distressing consequence. Yet, unhappily, management is often forced to seek out this kind of change just because of continued wage rate pressures of a magnitude unjustified in the light of the circumstances facing a particular industry.

Q *What has been your experience with the union in regard to this whole problem of technological change?*

A The steelworkers union prides itself on the fact that it does not oppose the installation of new, more efficient equipment, although it has, as you will remember, opposed improving the efficiency of manning in circumstances where there has been no change in capital facilities. It is increasingly concerned with employment levels, and, it seems to me, inclined to ascribe an undue share of the problem to automation. I think the real problem grows out of union attempts to get more wages and benefits out of the progress occurring from technological change than should be taken from it. By an almost blind adherence to outmoded purchasing power theories, they seek to make it seem that the progress in our country's standard of living, which comes from technological progress, really was caused by enforcement of union demands. The effect is not proving out very well from the standpoint of the national economic well-being.

Problems of unemployment

Q *What about workers whose jobs are actually adversely affected by changes taking place within the economy? What kind of communications program would help to explain to them what is happening?*

A We have to recognize frankly that words are poor substitutes for a job. Yet the unemployed are entitled to some explanations. In any society, including a free society, some people from time to time are bound to be hurt. This includes not only employees but those who invest as well. We don't hear as much about those who invested and lost as we do about the problems of those whose jobs have been temporarily suspended. I realize that it is difficult to say anything to an unemployed head of a family that will convince him of the necessity of making adjustments in the light of new economic developments. That doesn't mean, however, that education of some type would not be useful. But an educational program purely oriented to the problems of his employer might find the unemployed person in the state of mind that he couldn't care less.

Q *What kind of education or communication would help?*

A Well, the man who has lost his job, however temporarily, has problems on his mind, and he is beginning to ask himself some questions. Is the society he lives in still a good one? Perhaps he needs a lot of education about what kinds of problems would arise if we tried to have a society in which everything was planned and jobs were guaranteed, for example. Would the problems of that kind of society be less onerous than the problems of our society? In other words, we all have our bumps from time to time, but perhaps education can do a lot to determine how constructively we respond to our problems.

Q *Are you saying that there is inadequate appreciation of the built-in advantages of a system where a certain amount of instability exists?*

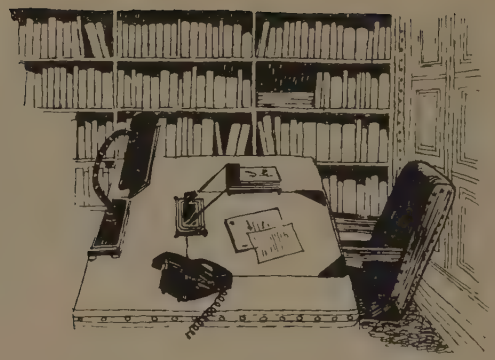
A Yes, and this is something that a good communications program might concentrate on. We said a moment ago that it is difficult for an unemployed individual to appreciate the over-all advantages of a society that allows a certain amount of unemployment to exist from time to time. But we have to decide whether we are individuals with souls and free spirits which, even at the pain of difficulty now and then, we would not want to sell completely to a controlled system. Absolute security demands an absolute price, and I don't believe that any country dedicated to freedom will readily cast aside that freedom in order to avoid the responsibility of seeking solutions to its problems. This does not mean that we should ignore the problems of unemployment.

Q *It would appear, then, that there are many directions in which a management-sponsored economic education program can move. There is plenty left to be done.*

A Communications may be an overworked word, but it is certainly an underworked art from the management standpoint. In the final analysis, whether any of the basic problems—economic and noneconomic—can be resolved sensibly and with a minimum of strife is going to be determined by whether we seek resolution of them in a manner consistent with the best interests of a socially tempered free competitive enterprise system. Whether it works out this way in the field of labor relations—which is my specific interest—may depend in substantial measure on the climate of opinion which employers throughout the country can help to develop among their employees and the surrounding public. This is the real task and challenge for management-sponsored communications programs of the future.

Q *Thank you, Mr. Larry.*

BOOKS BECOME BIG BUSINESS



by FON W. BOARDMAN, JR.

■ BOOK PUBLISHERS, long accustomed to hearing their business referred to slightingly as "an occupation for gentlemen," now find themselves being wooed by Wall Street. Formerly they watched lists of best-selling books. Now they also keep an eye on lists of stock prices. Each morning they turn to the financial pages of their newspaper to see if any more publishers have merged overnight.

A little over a year ago, in January, 1960, an article in the financial magazine, *Barron's,* noted that book publishing, "investment-wise, until lately was considered rather prosaic." The writer noted the trend to public ownership of publishing houses and rising share earnings and dividends. This article appeared near the beginning of an unparalleled string of mergers and other financial maneuvers in the book-publishing field. One compilation made late in 1960 listed 21 mergers in the previous five years; but about two-thirds of these, including almost all the important ones, came in late 1959 and 1960.

In December, 1960, Frank Swinnerton, writing for *Publishers' Weekly* from London, reported that the "air is full of rumors about take-over bids, mergers and the now urgent problem of what used to be called rationalization. . . . The question of mergers is as active here as it is in America." Mr. Swinnerton even mentioned one rumor, also current in the U.S., that a large American publisher, McGraw-Hill, was seeking to buy one of the largest British publishers, Heinemann. *Publishers' Weekly* has given official recognition to the trend toward public ownership by running once a month a list of publishing stocks and their prices. By the end of 1960, the report included eight listed stocks and 15 over-the-counter items.

This marriage of finance and literary enterprise has caused two basic, and sometimes exaggerated, reactions. On the one hand, there are the outsiders who assume publishing is now a source of large, quick profits. On the other hand, there are insiders who bemoan the whole trend as likely to lower quality and produce censorship through financial control. Before analyzing these reactions let us review the mergers, the financial changes, and the reasons for them.

Three-way merger

The only merger to combine three major publishing houses at one stroke was that which united Henry Holt & Co., Rinehart & Co. and the John C. Winston Co. into Holt, Rinehart and Winston, Inc. The dominant firm in the merger, Holt, was strongest in the high school textbook field. Rinehart had a strong college department and a technical book list. Winston was strong in the elementary schoolbook field. All had trade book departments (fiction and general nonfiction) and juvenile lists. At the time of the merger their combined sales were running at the rate of about $35 million a year. About four months after the merger more than 300,000 shares of the new stock, representing 15 per cent of the outstanding common stock, were sold by 17 of the largest stockholders.

A similar merger took place when Harcourt, Brace & Co. and World Book Co. were joined as Harcourt, Brace & World, Inc. Shortly before, nearly 500,000 shares of the common stock of Harcourt, Brace—representing 28 per cent of the stock outstanding—were sold to the public. At the time of the merger it was estimated that the new firm would sell $30 million worth of books in 1961 and show a net profit of $3 million. Harcourt, Brace's greatest strength lay in the high school text field where it had about 11 per cent of this lucrative market. World Book, on the other hand, had a good elementary textbook and educational tests publishing program.

A different kind of merger took place when, in the course of less than a year, the Crowell-Collier Publishing Co. first purchased control of the Macmillan Co. and then acquired full ownership by an exchange of stock. In this case, Macmillan is to operate separately under its own name as a subsidiary of the parent company. The combination brought together houses with entirely different publishing programs. The largest part of Macmillan's sales are textbooks at all levels. Crowell-Collier, on the other hand, publishes reference works, the best known being *Collier's Encyclopedia*. It also owns several radio stations. Macmillan's sales for the year ending April 30, 1960 were over $19 million; Crowell-Collier's for 1959 were almost $35.5 million.

The most spectacular merger of all was the purchase of Alfred A. Knopf, Inc., by Random House, Inc. Mr. Knopf, founder of his firm, is the very model of the independent, book-minded publisher whose interest is primarily in the editorial selection of books, although in the course of a long and distinguished career he has obviously made a fair

amount of money also. Random House has, like Knopf, been a successful general trade book publisher under the guidance of Bennett Cerf and his partner, Donald Klopfer. Mr. Knopf was paid in both Random House stock and in cash. In addition, he and his wife will continue to run their firm editorially.

For the year ending April 30, 1960, Random House's sales were about $12 million and Knopf's $4 million. Random House stock was first publicly offered in the fall of 1959. In a further move to round out the enlarged firm, a few months after the merger Random House bought the L. W. Singer Co., publishers of elementary and high school books, which neither Random nor Knopf had issued.

Branching out

Three transactions of a different kind took place when one large newspaper corporation and two magazine publishing organizations decided to add books to their line of printed products. In the first of these, the Times-Mirror Co., publishers of two newspapers in Los Angeles and operators of radio stations and other enterprises, bought the New American Library of World Literature, Inc., one of the largest of the mass market paperback publishers. NAL was founded as recently as 1948, but its sales in the year ending June 30, 1959, passed $12 million.

In the fall of 1960 the Meredith Publishing Co., chiefly known for its magazine *Better Homes and Gardens,* purchased Appleton-Century-Crofts, Inc., whose strong areas are college texts, and medical and reference books.

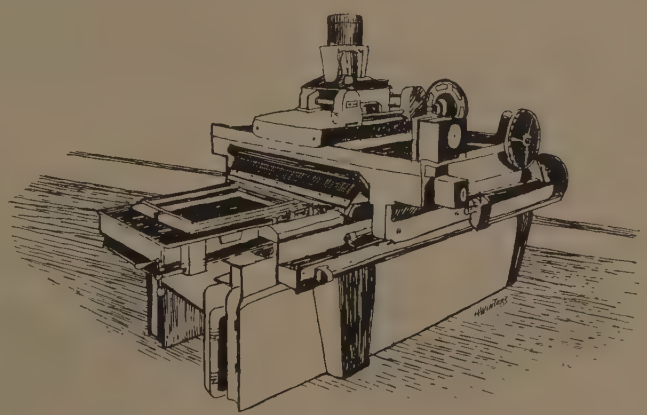
The other magazine publisher to move into the book field, the McCall Corp., "bought" a publisher rather than a publishing house. In August, 1960, McCalls announced it had hired as a vice president William E. Buckley, a well-known book publishing executive, to head a new book division. McCalls also stated it was in the market for book firms. As this is written, McCalls has not announced any purchase, but there have been rumors.

In two other 1960 mergers, existing general publishing houses acquired firms devoted chiefly to the fast-growing field of "quality" paperback publishing. The World Publishing Co. (not to be confused with the World Book Co.) bought Meridian Books, Inc., one of the new firms in the paperback field with sales approaching $1 million a year. In the other deal, Farrar, Straus and Cudahy, Inc., purchased the Noonday Press.

Three points of view

Finally, two other transactions of 1960 deserve mention. Scott, Foresman & Co. offered 683,000 shares of common stock in an over-the-counter sale. This represented 30 per cent of the outstanding stock and was the first time any had been publicly traded. The company is believed to be the largest publisher of elementary school books.

The other transaction of this type involved another textbook publisher, Ginn & Co. The story was much the same: over 800,000 shares were offered; they represented 29 per cent of the stock; it was the first time the stock had been sold publicly.



These financial transactions of recent months can be examined from three points of view—those of buyers, sellers and management.

From the buyers' angle, publishing is now a "growth industry" and therefore financial houses are eager to arrange mergers, invest in publishing and recommend that their clients do likewise. To some extent, publishing shares have succeeded the electronics and missile issues as "glamour" stocks. There is, perhaps, in some minds a logical connection between publishing and the space age: only scientists can get us to the moon; scientists can be produced only by education; education requires books. In addition, one can look forward to ever-increasing enrollments in the schools. The Holt, Rinehart & Winston, and the Harcourt, Brace & World combinations came about in part for these reasons.

Last December, Charles F. Bound, a vice president of the Morgan Guaranty Trust Co., stated that textbook publishing is a growth industry and he advised others as well as his own bank to invest in publishing.

In its review of the 1960 stock market, *Business Week* said, "Wall Street, of course, is a slave to fashion, which helps to explain why so many stocks are either overvalued or undervalued. The institutions set the style, and the public follows. . . . This year, for example, the institutions discovered the stocks of publishing companies, which now appear in practically every portfolio. The result is that they are selling at very high price-earnings ratios, and are no longer the bargains they were earlier."

The motivation of most of the sellers who were involved in these mergers can be summed up in two words: death and taxes. Many of today's successful publishing houses began with one man, or two partners. In recent years some of these men have died, and their families and estates have found this a favorable time to cash in their inheritances at a profit. This was one of the reasons for the change at Harcourt, Brace, and for the offering of Ginn,

and of Scott, Foresman stock to the public.

There are also a number of leading publishers who can see retirement coming nearer and who want to provide for their families and for the continuance of their business. Stanley Rinehart, for example, will be 64 in 1961; Alfred Knopf, 69; Bennett Cerf, 62. Mr. Rinehart has said: "The more successful publishing houses have been family owned. There've been high inheritance taxes to think about and the matter of individual succession is a problem."

At the time he sold out to Mr. Cerf, Mr. Knopf said: "Privately owned businesses always want to set their houses in order. It's not peculiar to book publishing." When Victor Weybright and Kurt Enoch sold New American Library to the Times-Mirror interests, Mr. Enoch said that one basic motive was to be sure NAL would continue beyond the lives of its two founders.

Welcome savings

Management has also had a hand in promoting mergers. Since World War II all costs in publishing have gone up and any savings that can be made by doing things on a larger scale are welcome. Such savings should be especially important in warehousing, shipping and bookkeeping, where modern methods applicable to almost any business can be used. Consolidation of selling activities can also be achieved with some saving in salaries and travel expenses. With some exceptions in the textbook and paperback departments, the physical merger of Random House and Knopf has been only in the areas noted above.

From the management point of view another welcome result of mergers and public stock sales has been the provision of more capital funds. With costs up and with publishing growing each year, much more money must be invested if a business is to prosper. Nowadays, the investment in one series of textbooks runs into six figures, and several years elapse after the start of a project before a single cent is earned through sales. The need for capital has been increased by the fast rate of growth of the textbook business compared with prewar years.

Some mergers have come about as firms have attempted to round out their publishing activities. The Holt, Rinehart and Winston merger meshed all areas of textbook publishing. Rather than start its own line of "quality" paperbacks, World Publishing Co. bought one of the more successful of the new houses in this field—Meridian. At the time of the purchase, Ben Zevin, President of World, said that the next step for World was to get into the college textbook field, presumably by buying an existing publisher.

Cultural atmosphere

Some of the mergers have been the result of the general trend toward diversification of interests and products. So far, in publishing the combinations have been more or less logical. The Times-Mirror Co. adds books to its printing and newspaper publishing business; McCalls and Meredith add books to magazines.

Finally, some of the financial flattery showered on publishing as the Sixties began may be the result of a change in the cultural atmosphere. Intellectuals are riding high; symphony concerts draw more people each year than professional baseball; even movie stars attribute their success to books as well as to physical appearance. As we shall see later, this favorable intellectual climate seems already to have produced higher book sales.

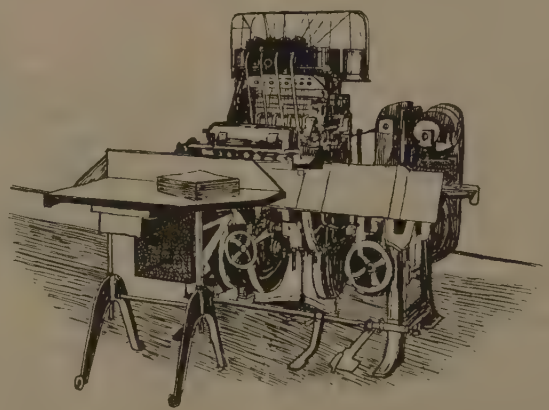
Other events in publishing since the war are part of the same picture. A number of publishers have entered the textbook field. The "quality" paperback business, relatively the fastest growing part of publishing, is not yet 10 years old. New publishing houses are being established much faster than others are merging. The issue of *Publishers' Weekly* that contained the story of the Harcourt, Brace-World Book merger also told of the founding of three new firms.

Counting houses

A quick count in the *Literary Market Place,* the annual directory of the industry, shows at least 161 publishing houses founded since 1945. Some of these will be unsuccessful and will soon disappear; some are subsidiaries of already existing houses; there are a number of new university presses, new religious publishing houses and others publishing books in special fields. Some of the houses have experienced bookmen and adequate capital behind them, and three of them have played a major role in the mergers already described. Of course, some old and new firms have disappeared, including at least one of the splashier ventures (Pennington Press) which barely saw its first birthday.

The importance of savings in the more routine departments of publishing is underlined by several recent arrangements whereby one firm has taken over the selling, shipping, warehousing and billing of another without any other legal or financial connection. A good example was when Dell Distributing, Inc., arranged to perform these functions for the Grove Press.

To sum up, in one way or another all these mergers, stock sales and other developments have been prompted by the changing circum-



stances of recent years—prosperity, high taxes, inflation, population explosion, mounting school enrollment. To understand what they will mean, one must look at book publishing as it is now, its recent trends and its future prospects.

The two basic economic facts about book publishing are that it is a comparatively small industry and that it is made up of a comparatively large number of firms. Total sales in 1959 were just over $1 billion, split up among three major categories: trade books (fiction, nonfiction, paperbacks, book clubs, juveniles, etc.), about $409 million; textbooks and tests, about $526 million; and subscription reference books and sets, about $271 million. For comparison it might be noted that in a normal year General Motors' net profit is more than total book sales.

There are over 800 publishing houses in the country, if one counts every organization that in the course of a year issues one or more books for more or less public sale. In 1960, however, firms that published five or more books during the year totaled 368. Only 33 publishers brought out more than 100 books during that year and eight of these were paperback houses issuing chiefly reprint editions. Another 47 publishers issued 50 to 99 titles each.

Encouraging signs

Recent trends in publishing have been encouraging. Dollar sales of all general trade books went up 72 per cent between 1952 and 1959, a notable increase even after allowing for inflation. During the same period sales of juvenile books priced at more than a dollar went up by 124 per cent; "quality" paperbound books by 568 per cent; business, scientific and technical books by 118 per cent. Dollar sales of textbooks increased by 11.5 per cent between 1958 and 1959, while subscription reference book sales were up 15 per cent.

Between 1930 and 1959 the number of copies of books sold per year increased from 154 million to 959 million. Total sales in 1931 were only $146 million, compared with over a billion dollars in 1959. Even though book publishing is in some ways small potatoes, these figures do not indicate a moribund industry.

However, it is not past growth that has aroused Wall Street's interest so much as future prospects. The key words are population and education, with emphasis on the latter. Elementary and high school enrollment, which was a little over 28 million in 1930, is now nearly 45 million and still climbing. College enrollment, only 1.1 million in 1930, is now nearing four million, and there are estimates that it will reach 6.5 million by 1970.

Recently, a banker, defending publishing as a growth industry, pointed to the example of six publishers, chiefly concerned with textbooks, who have shown an aggregate increase in the past five years of 84 per cent in earnings. One estimate of textbook sales predicts a 20 per cent increase for the elementary field between 1959 and 1969; 40 per cent in the high school field; and up to 50 per cent in the college field. In addition, textbook sales are only slightly affected by the business cycle.

In publishing generally, forecasts issued through the Book Manufacturers' Institute in September, 1960, predicted that 1.2 billion books will be sold in 1965, an increase of about 27 per cent over the 1958-59 average. General adult books are expected to be up 30 per cent and children's books up 25 per cent. In fact, as more people get more education, they will buy and read more books.

Let us now consider the results likely to follow from the mergers and the entry of outside money into book publishing. What will be the advantages and disadvantages, both to publishing itself and to society?

Some of the practical advantages of larger units in publishing have already been mentioned—increased economy and efficiency may be expected to offset rising costs, and more capital will be available for investment in new book projects. Another advantage is the availability of funds for market research, an area in which publishing has hitherto been weak. Presumably, too, sales forces and sales techniques can be increased and improved.

It has been suggested that improved selling will enable books to compete better with television, sports and backyard barbecues for the consumer's time and money. This, however, would seem to apply chiefly to books of light entertainment—what have recently been labeled the "nonbook" books. Examples are the ghost-written autobiographies of movie stars and the masterpieces of television personalities. In actual fact, most of the competitive selling in publishing is among publishers, not with other businesses. This is especially true in the textbook, reference book, and Bible fields.

Mergers always bring charges of monopoly, but monopoly is still far distant in publishing. Doubleday & Co., Inc. was considered the largest general publishing house before the current wave of mergers. Yet its sales now are only about three per cent of the total. The combined sales of Crowell-Collier and Macmillan will be under six per cent of the total. In 1930, 217 houses issued five or more books; in 1960, 368. In 1930, 10,807 new books and new editions were published; in 1960, 15,012. This does not look like monopoly or restraint of trade.

Control over content

Recent events have also raised fears of censorship and the lowering of standards if profits are put ahead of quality. As to textbooks, any damage to the quality of the content, or any censorship, is more likely to come from the outside. Publishers really have little control over textbooks. In the case of public schools, content is determined by school boards, state legislatures, educators and pressure groups; in the case of college texts, chiefly by the authors themselves—the professors who write and use the books.

Probably the most fears have been expressed about the fate of good fiction, poetry and serious nonfiction under the cold eye of Wall Street. It is true that this is the least profitable part of publishing, but it has been so for many years, and first novels are still published at a loss. It is now difficult to get certain books of limited appeal published because of rising costs. This has put more of a burden on specialized publishers, especially university presses, but this is not the result of mergers.

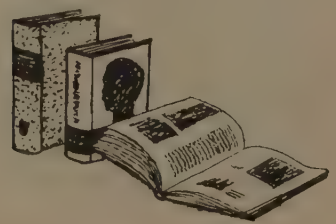
In fact, the larger houses with profitable textbook departments can better afford to publish the financially marginal or speculative book. It is quite likely that they will continue

to do so. There is always the chance that a novel will become a best seller, and that the scholar with the book of limited appeal today may be the author of a staple textbook tomorrow.

There has also been concern that the quality of books for the general public may decline. A case can be made that this has already happened, but if it has, it is attributable to general trends in popular taste and mores, not to mergers. The bedroom memoirs of notorious females, the quack medical tomes, and the *Peyton Places* will continue to be published. But they are more appealing to the publisher who lives on "quicky" best sellers than to the sound, integrated firm that must think of its "corporate image" in the eyes of teachers, librarians, critics and even stockholders.

Whatever troubles or faults book publishing has, one cannot blame them on mergers or Wall Street money. It is, at least, encouraging that publishing is a lively enough business to attract the funds it needs. If events in other businesses are omens for the future, one problem may even turn out to be not the relationship between financial control and culture, but the relationship between management and ownership that will become increasingly separated as companies grow and stock is more widely distributed.

At the moment, then, the outlook for publishing is bright, and the mergers and public sales of stock should help to improve its economic prospects. After all, a poorly run house with insufficient capital and inefficient management is not likely to contribute much either to business or to culture. It is always possible that managers interested in profits rather than quality will let the cheap drive out the good. There is, however, no indication of this as yet, and it seems unlikely that there will be any great change in the many kinds of books published for the many kinds of readers. ■



Is the 'GOOD LIFE' here?

by HARRY W. PEARSON

■ "I GIVE YOU the toast of the Royal Economic Society, of economics and economists, who are the trustees—not of civilization, but of the possibility of civilization." Thus, somewhat cryptically, the late great Lord Keynes commented on the relationship of the economy and economists to the good society. The occasion was a banquet given when Keynes retired as editor of the *Economic Journal* in 1945.

In an earlier essay, "Economic Possibilities for our Grandchildren," written during the bleak days of 1930, Keynes presented what I consider to be the conventional view of the problem of the economy and the values it serves. Projecting the economic growth rate of his day over a period of 100 years, he predicted that the "economic problem" might then be solved and that we could "devote our further energies to noneconomic purposes."

Keynes looked to a golden age. "Where the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for 200 years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtue. We shall be able to afford to dare to assess the money motive at its true value." Only then, according to Keynes, will man's truly permanent problem emerge: how to live "wisely, agreeably and well."

In the current debate on the problems of the "affluent society," the idea that production will lead us by the hand to the good society has fallen into some disrepute. But we have yet to challenge its fundamental premise. The immediate questions now bubbling to the surface of public debate arise from the concern over the quality rather than the quantity of current production. Are we satisfying our "private" wants lavishly and in bad taste as we starve our "public" needs?

This question is coupled with the uneasy feeling that private wants may turn out to be as insatiable as economists have always assumed them to be, thus compounding the paradox of public squalor amidst private plenty. J. K. Galbraith, in his book which provides the theme for the current debate, counters the Keynesian thesis by emphasizing the enormous capacity of the market or private economy to generate the very wants it sets out to satisfy.

W. W. Rostow, in his recent book, *The Stages of Economic Growth*, also wonders "what man can and will do when the pressure of scarcity is substantially lifted from him." Rostow suggests that boredom *may* be our fate when the challenge of compound interest has run its course. But he hopes, like Galbraith, for the emergence of the balanced society after the "economic problem" has been solved.

We are thus faced with some questions: Is it true, as Solon in an earlier millennium claimed, "No bound to riches has been fixed for man"? Or do we agree with Aristotle, who, arguing against Solon and anticipating our modern dilemma, said that there is a natural limit to "the art of acquisition," and that the problems of the good life are of a different order? Or can we, as Keynes suggested, turn to the problems of the good life only after the "economic problem" has been solved? What do we mean by economic wants? What is the economic problem? Indeed, what *is* the function of the economic

system in relation to the good society?

What Keynes neglected to say, and what the current discussion of the "affluent society" does not make adequately clear, is that the "economy" is not merely a system for producing the material means of livelihood, but an all-embracing social order. And the "economic problem" is not a hurdle one day to be left behind, but the basic mode of operation for that social order.

The market, which *is* the economy in modern parlance, can call forth or curtail the production of an infinite array of goods and services. Through the countless "economizing" choices of individuals getting and spending their income, the economy has the task of "producing" not only the material means of livelihood, but a wide variety of the social, cultural and intellectual roles (services) which are vital to the health of the body politic.

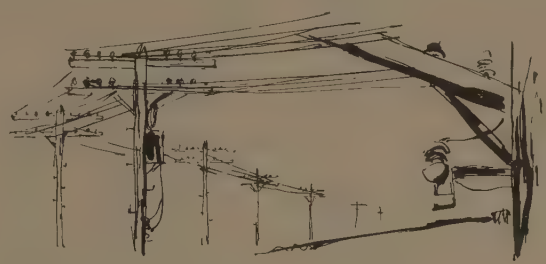
Thus, no level of material production can rid us of "the pseudo-moral principles which have hag-ridden us for 200 years." For the economic problem in the market economy is not merely a matter of the standard of life; it is a way of life.

The problem is not what to do after a certain level of production has been reached, but what to do. The basic and permanent question has always been how to live "wisely, agreeably and well," and this question requires choice and decision no less in an affluent society than in a poor one. The important question is whether and to what degree the political process—that is, the means by which we determine who gets what, when, how and where—provides adequate and effective representation for the legitimate interests of the members of the community.

Markets and money

The institutional medium of markets and money, which we rely on so extensively, is a remarkably effective means of calling forth, integrating and sustaining the productive efforts that maintain our society. But, as J. M. Clark, the grand dean of American economists, has often pointed out, the market is also a "biased instrument." It serves some interests better than others, and here is the crux of the matter.

Many of the amenities of the good life, which it is too often assumed can come only after the economic problem is solved, are themselves largely supplied through the "economic" system. Indeed, our national wealth, as we measure it, is composed to a large and increasing extent of services, many of which are really contributions to our cultural, intellectual and political strength. But it is precisely in the area of those services, which are at present so vital to the vigorous variety and balance in the body politic, that the biases of the market system are particularly strong.



If we review the actual performance of the economy in this light, we see that the composition of its output since the end of World War II has greatly changed in the direction of services. As productivity rapidly increased in the goods-producing sector of the economy, and as the level of personal income rose, more of our energies and more of our income have been spent on the category we call "services."

On March 31, 1957, *The New York Times* announced that some time during 1956 the American economy had passed a little-heralded milestone. During that year the balance of our productive energies, as measured by the Department of Commerce, tilted in favor of services; more of the labor force since then has been employed in government, trade, finance, utilities, transportation and such other service industries as education, medicine, law and entertainment, than in the production of the material means of livelihood.

Consumers still spend more of their income on durable and nondurable goods than on services, but the latter category of expenditure has risen steadily since 1947. In 1959, 39 per cent of the consumer dollar went to the purchase of services, and 37 per cent of the gross national product (which includes government expenditures as well as gross investment by business firms) was spent on services.

What is the significance of the fact that such a large proportion of our energies and income is now devoted to the production and purchase of services? Does it signify the millennium wherein, with leisure and abundant material means, we can turn to the good, the true and the beautiful? Or are we simply busy taking in one another's laundry?

In the sense that fewer of our energies need to go into the production of the material means of livelihood than into non-goods-producing activities, we have solved an age-old economic problem. But the energies which are released from producing goods, and the income which is available for the purchase of services, must still largely be channeled through markets. Is the market an adequate instrument for producing services of the kind and variety which are essential to a flourishing democratic polity?

Perhaps we can find the answer to this question by examining the composition of the service component of our national wealth. The category of services, as listed in the national income accounts of the Department of Commerce, is a polyglot one. The following table lists its major components, along with the amount spent on each item in 1959 (in billions of current dollars):

Rental value of dwellings (owner and tenant occupied)	$40.5
Financial and legal services to individuals	$18.6
Medical care	$14.9
Telephone, gas, water and electric utilities	$12.4
Transportation	$ 9.9
Recreation	$ 5.9

Religion and welfare	$ 4.3
Private education	$ 3.9
Foreign travel	$ 2.8
Cleaning and laundering	$ 2.8
Barbering	$ 2.0

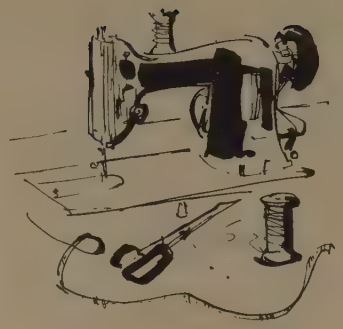
To a large extent these items represent the requirements of maintaining and servicing the durable and nondurable goods of an affluent society. The category has also been shaped in part by the arbitrary decisions of national income accountants, who count, for example, the rental value of owner-occupied dwellings but not the "services" of the housewives who occupy them. Moreover, some of the items simply represent the desire of many people to send out their laundry rather than buy the automagic, washoramic durables which allow them to do the job at home.

The rise in the importance of service industries may have some interesting and important effects upon the stability of income and employment in the total economy. But insofar as their functional significance in the society is concerned, many of the service industries are little different from the goods-producing industries: they provide us, in the economist's phrase, with readily marketable "utilities."

However, an important segment of the "services" category is of a distinctly different character. These activities—among them are education, basic scientific research, the arts, communication, medicine, religion, the financing of politics—have no direct functional relation to the production of material goods. More important, in the present context, their effective performance cannot depend on the "economic" motives of the market place.

Metaphorically speaking

We may speak of "the market place of ideas," or we may emphasize that it is necessary to develop our "human capital," but we recognize when we do that we are speaking metaphorically. Taken literally, such phrases would be grotesque. Ideas in any of these areas are not produced for sale; nor can they, nor should they, in most cases be made so popular as to be economically mass produced. The potential national wealth in these activities cannot be measured in any economic sense; yet these are precisely the services which are



required to nourish that variety, balance and controversy so essential to the liberal democratic state.

The market, as a political instrument—that is, as the means by which we collectively decide which of the conflicting claims upon our wealth and energies are to be honored—does not, unabetted, give adequate support to the new, the unpopular or the socially necessary.

We recognize that the market cannot produce the material equipment, nor supply the manpower for national defense. But we have yet to see clearly that, without assistance, the market does not, in the area of cultural services, support that plurality of ideas and creative expression which are equally necessary to the vitality of our national existence. By making all things, material and nonmaterial, available on markets and giving them a common money value, the market system obscures the functional variety in our society.

It is the urgent task of the political process to identify, preserve and nourish that variety of interests and values. No amount of increase in productivity, no increase in the size of our gross national product, can

save us the bitter necessity of choosing how to live. That, not economizing, is the essence of the free society.

What, then, is required? To suggest that ours is a problem of the political order is not to advocate that we simply turn over to the state the job of supporting our cultural life. It is by an article of political faith that we achieve our goals through private, individually made choices, and we shall certainly continue to rely heavily on the laws of supply and demand to provide us with the services we want. But to do so does not require us to regard the laws of supply and demand as inexorable and immutable.

It seems to me urgently necessary that we recognize that our national wealth, as we measure it, is in reality composed of functional categories which play widely different roles in our national life. In other words, we must recognize the political aspects of the private decisions we make in the market place. If we are concerned with the economy's relation to the vigor and variety of our national existence, we must actively debate the effectiveness of the market for achieving the aspirations of the various individuals and groups which compose the polity. This is an open plea that we more actively and systematically engage the economy in the political process in the sense that the public consequences of market decisions and the rules of the market game be a matter for public discussion and public decision.

Functional service area

Together, the market system and the constitutional system of government are two of the great collective decision-making institutions invented by the industrial states of the West. It is the latter institution upon which we must finally rely for the hearings and the decisions which affect us as citizens.

This is the line of reasoning we followed when we instituted a national Department of Health, Education and Welfare, recognizing thereby the unique existence of one of the functional service areas so vital to a vigorous polity. Its function is to stimulate discussion, canvass opinions and formulate the policies necessary to give reasonable and effective representation to interests not ade-

quately represented in our economic system.

We need similar national departments for the arts and humanities (as Senator Jacob Javits has already recommended), and possibly also for communications, the media which support the exchange of ideas and information. We need these, not to regulate and restrict activities in the arts and communications, but to provide a forum for the public discussion of problems in these areas and to hear from the variety of interests which have inadequate representation in the market place.

Such departments could formulate policies which, in consonance with our institutions and political values, could overcome the financial handicaps of "marketing" these services. This could be done by subsidies, low-interest loans, marketing or mailing assistance, tax advantages, etc. The new government departments could also assist those "cultural entrepreneurs" who invent ways—such as book and graphic art clubs, and subscription movies and radio—of making the market serve the interests of minorities and the integrity of those who sell their creative services. In some cases we need to provide market-free areas—for example, national institutes and fellowships—where some artists and writers could work and think, temporarily free from the insidious demands of the market place.

In the case of the communications industries, we need a serious and thorough public discussion of the effects of advertising on the mass media. No single institution in American life represents more clearly than advertising the disparity between what we think and need as citizens, and what we accept as consumers. This is the gap we must bridge if we are to enrich our private lives. ■

Realities in search of a theory — No. 6

What Government Can and Cannot Do

by ARTHUR SMITHIES

Sixth in a series of articles dealing with the lag between the way we think our economy behaves and the way it actually does behave.

■ DURING the last 30 years public opinion concerning the government's influence on the economy has shifted. Previously, it was believed that the government could do nothing to alleviate depression or promote growth. Now, it is widely held that recession and a slow rate of growth are directly attributable to what government does or does not do. Is this new point of view realistic? To what extent, in a private enterprise economy, are there distinct limits to what the government can do?

The objective of full employment and a faster rate of growth can be attained; the government, however, must be given tools with which to operate. Moreover, the tools needed and their effective use are not inconsistent with the successful operation of a private enterprise economy.

As matters stand, the lack of adequate tools, and restrictions on their use, mean first that the objectives of growth and stability can only be imperfectly attained; and second, that compromises have to be made between stability of employment and other economic objectives, particularly price stability and external balance.

Both theory and experience have shown that fluctuations in the private economy can be offset by fiscal and monetary action by the government. The Thirties demonstrated that if a deep depression with widespread excess capacity is allowed to occur, government spending is essential for recovery. The existence of excess capacity on a large scale effectively prevents an automatic revival of private business, even when aided by cheap money and abundant credit.

Recovery was so slow during the Thirties largely because of the fact that, during most of the period, increased expenditures by the federal government did little more than offset decreased expenditures by state and local governments. The increases in defense expenditures in 1941 rapidly brought full employment—not because they were for defense, but because they amounted to $14 billion.

The relatively high levels of employment maintained since the war can also be attributed in large measure to the stabilizing influence of government economic activity. Without it the recessions of 1954 and 1958 could have spiraled seriously. The fact that governments at all levels now spend for goods and services about 20 per cent of the gross national product, compared with about four per cent in 1929, is itself a strong stabilizing influence.

Furthermore, the automatic operation of the tax system and government payments for unemployment compensation, social security, and so forth, tend to make personal disposable income fluctuate much less than total national income. In money terms disposable income has increased every year since the war, and in real terms it has fluctuated considerably less than total national income. This has meant that despite

fluctuations in private investment, the economy has been sustained by a continually rising volume of consumer purchases. Nevertheless, the depression of 1958 was a serious matter; and there is no guarantee that, without government action, more serious depressions may not occur in the future.

Effective policy

A policy that would effectively eliminate the danger of anything but mild recession could easily be designed. It would consist of three types of measures:

- First, sources of instability in the private economy should be reduced, particularly in the areas of consumer durables and construction—especially housing. With its existing credit powers the federal government could smooth out fluctuations in residential housing. It could, in some measure, prevent housing from responding to fluctuations in general business conditions; and it could also prevent fluctuations in the housing industry itself, which would, in turn, affect general business conditions.
- Second, government expenditures should be phased to offset private business fluctuations, not to exaggerate them. This is the old-fashioned prescription for compensatory government action which, in recent years, has fallen into some disrepute. It is argued that the federal budget is too inflexible—particularly with respect to the defense program—to be varied from year to year for economic reasons. It is argued that some expenditures for defense procurement result from decisions made years before and cannot be varied in accord with current economic conditions. Furthermore, national security decisions should not be tampered with for domestic economic reasons.

These arguments can be carried too far. Even in the defense area there are important items such as repair, maintenance and even construction of installations that are not of a "long-lead" character and can be varied from year to year without impairing national security. Similarly, in the public works area, work on dams or highways can be accelerated or retarded without economic waste. With adequate advance preparations, federal expenditures could probably vary by at least $2 billion or $3 billion from one year to another, without interfering with the objectives of the programs involved. If state and local governments followed the same practice, the total could be considerably greater.

- Third, stabilization of employment requires that the measures that maintain consumer purchasing in the face of fluctuations, say in the area of private investment, be enlarged and improved. The automatic operations of social security, unemployment compensation and the tax system itself have already been referred to. And in this connection a kind word should be said for agricultural price support. Although much can be said against it, the program is a useful automatic device for sustaining the purchasing power of farmers in times of depression.

More, however, needs to be done along the lines of automatic stabilization. In 1958, and perhaps in 1961, a temporary reduction of income tax rates would have been a very useful method for increasing consumer purchasing power, and thereby offsetting the general recession. The objections to such a course, then and now, are twofold. First, even if a tax cut is proclaimed to be temporary, there is a strong likelihood that the cuts

would not be restored when increased revenues were needed. Second, the time consumed in debating and enacting tax changes is so long that the reduction may come after the need for it has passed. It may then strengthen the next boom rather than attack the current recession.

What is needed is a tax cut that comes into operation, not as a result of legislation or even administrative discretion, but as soon as key indicators have demonstrated that an economic decline has begun. The old rate would be restored when the indexes had recovered to prosperity levels. An automatic scheme would also create a confident expectation that corrective action would be taken if a recession should go beyond some well-defined point. In fact, that expectation would reduce the need for the remedy.

That raises an important point concerning stabilization policy. An expectation that fluctuations will occur can either make them happen or make them worse. This point is particularly relevant to inventory fluctuation, a major factor in the postwar booms and depressions. The best way to eliminate this source of instability is to create an expectation of stability. Unlike habit-forming drugs, the more stabilization policies the economy has, the less it needs to use them.

Measures of control

With some confidence we can say that depressions can be eliminated with the application of such measures. In fact, compared with 1929, the United States has come a long way in that direction. Further progress depends on a number of steps that are not inconsistent with the principles of democracy or private enterprise.

Housing credit control machinery already exists. Consumer credit has so far been controlled only on an emergency basis. But the permanent controls needed are no more revolutionary than the control of mortgage credit or of commercial banks. Fluctuation of expenditures can be achieved within the present framework of appropriations, but it requires careful administrative planning. Automatic changes in tax rates sounds novel, but is no more novel in principle than the other automatic devices that have been accepted without question.

Nevertheless the adoption of such measures will encounter strenuous opposition. Consumer credit controls arouse the fierce hostility of business and labor in the industries immediately affected—even though they have much to gain from economic stability. Administrative discretion with respect to expenditures arouses the jealousy of powerful Congressional committees, intent on main-

taining their power. And the believers in "prudence" and "soundness" angrily condemn any novel measure as radical. The way toward improvement in stabilization policy is likely to be tortuous and slow.

Achieving growth

The problem of achieving economic growth at some desired rate is something new in American political and economic life. Apart from mobilization periods, we have, in the past, let economic growth look after itself; and it has provided some measure of abundance. But now we have a burgeoning population to provide for and Russia to compete with. Now, the question is how to increase the rate of growth of the GNP from its historical rate of, say, three per cent to 4.5 or five per cent. I am not discussing whether this objective is necessary or desirable, but merely whether it is feasible.

As I said above, the objective *is* feasible in a private enterprise economy. Rates of growth of more than five per cent have been achieved during the last decade by Germany, France, Italy and Japan. There is no economic reason why similar rates cannot be achieved in the United States. A policy for accelerated growth would consist of some combination of the following measures:

- First, keep the economy at full capacity operation; in other words, avoid serious recessions and excess capacity. There is nothing that discourages the creation of new capacity as much as the existence of excess capacity.
- Second, encourage additional saving and investment when the economy is operating at full capacity. The government's instruments for increasing saving and investment are its fiscal and credit policies. It can add to the flow of saving by generating budget surpluses—either through cutting expenditures or increasing taxation. The surpluses, if they are used for debt retirement, can add to the funds available for private investment. Investment can be stimulated by lowering interest rates or by providing various tax incentives for investment. Such measures can be applied as needed.
- Third, channel investment into areas where it will contribute most to economic growth. This, in general, means the areas where technology is progressing most rapidly and where new investment is required to put it into effect. Such a policy would probably mean selective controls on housing construction to make room for increased industrial investment.
- Fourth, increase the supply of labor, or at any rate prevent a decline in the ratio of the labor force to the total population. This would mean halting or reversing the tendency for the workweek to decrease, increasing the retirement age and holding the school leaving age where it is.
- Fifth, increase the rate of technological progress, increase incentives to work hard and ingeniously, and in various other ways increase productivity. In this area there are some specific things that can be done whose consequences are fairly predictable. Tax allowances can be made for research and development expenditures. Rapid amortization of equipment will accelerate the use of the most modern technology. Training of engineers will provide the needed specialized skills.

There can be little doubt that various "mixes" of these measures will produce the desired increase in the rate of growth; in that sense the government can produce the desired result. But the political difficulties of such a program are formidable.

For the government to achieve a surplus year after year would probably require an increase in broad-based taxation, which no one is prepared to advocate—let alone enact. The alternative would be a large cut in the defense program. But if that should become feasible, one of the main arguments for accelerated growth would disappear. The tax incentives required for private investment might require reduction of the corporate income tax at the same time that other taxes are increased. The objections to selective controls have already been noted.

Reversal of the trend toward shorter hours, to say nothing of an increase in hours worked, would mean winning acceptance for a change that would be widely regarded as retrogressive.

Increasing productivity presents a different kind of difficulty. Advocates of every program for social improvement are now scrambling aboard this particular bandwagon. It is simply not true that *every* program of social improvement, however desirable in itself, will contribute to economic growth. As a concrete illustration, social welfare programs may effectively preclude the budget surpluses that are needed to supplement the total flow of saving.

These difficulties may appear impressive, but they could all be overcome relatively easily if the selection of measures is such as to minimize political resistance, and if the objective of increasing the rate of growth is taken seriously, not only by the government, but by the nation as a whole.

So far we have reckoned without the problem of inflation. A major reason why the rate of growth has slowed down and the level of unemployment has risen in recent years is that the government has sought, with inadequate means and not very successfully, to achieve price stability. It has tried to do so through the orthodox methods of fiscal restraint and general credit restriction. In an orthodox world these measures are supposed to produce reductions in prices and money wages.

In the world of today they produce unemployment, curtailment of production, excess capacity and a reduction of the investment needed for economic growth. As an incidental

consequence the monetary authorities are roundly condemned. It would be fairer to recognize that they may have been given an impossible task.

Some will argue that successful policies of full employment and economic growth will themselves produce price stability. While money wages will doubtless increase under such policies, it is held that productivity will increase fast enough for the money wage increases to be absorbed without price increases or profit reductions.

The weakness of this argument is that it implies some restraint on the part of unions in making their wage demands, resistance to those demands on the part of employers, and also restraint on the part of price setters with respect to their profit margins. If the government undertakes to maintain full employment and full capacity operation of industry, regardless of the price and wage level, those restraints will be largely removed. The possibility that wages and prices may be increased to a degree that is generally considered undesirable cannot be dismissed.

No ready answer

In fact, it seems likely that if continuing full employment, rapid economic growth and reasonable price stability are to be achieved together, some direct government intervention in the wage-price area will be required. This possibility poses perhaps the most difficult problem confronting the framers of economic policy today. Whereas the problems already examined can be solved by well-known and, to a large extent, tested methods, the wage-price question permits no ready answer.

Comprehensive wage and price controls of the wartime variety are out of the question as a permanent arrangement. Compulsory arbitration, while used with varying degrees of success in other countries, is firmly rejected in the United States. Exhortation by high officials does not seem to be enough. Another possibility is that the President should be equipped to intervene when the price and wage policies in certain key industries threaten price stability. The distressing aspect of the whole matter is that the problem does not seem to be under active public discussion. What we seem likely to do is to hope for the best, and if the best does not occur, to muddle along with an uneasy compromise between price stability and other objectives.

Technological change

The final obstacle to the attainment of full employment and domestic growth is due to the balance of payments deficit. The level of employment and use of capacity, the rate of growth and the rate of inflation, are all critical factors in determining whether we have a surplus or a deficit in our international balance of payments.

If industry is operating at full capacity it has little incentive to increase sales abroad or to compete vigorously with imports. Excess capacity increases those incentives. On the other hand, an increased rate of growth is likely to improve the external position. The technological change that goes with accelerated growth results in an increasing stream of new products that can compete with foreign products at home and abroad. But if we permit more inflation to occur here than takes place abroad, these advantages can be lost. United States producers would tend to be priced out of foreign markets, and also out of their own.

My own opinion is that if the price problem can be solved, or if it solves itself, full employment, rapid growth and external balance can be achieved together. Without price stability we face awkward alternatives. Either the domestic objectives of full employment must be subordinated to the requirement of external balance, or else ways must be found to deal with the deficit that do not impede the operation of the domestic economy.

We have been following the first alternative during the last year. One reason why we are tolerating a high level of unemployment is that the fiscal and monetary policies needed to correct it would be likely to increase the outflow of gold. With a rapid return to full employment, we should be prepared to lose more gold or to obtain short-term credit from other countries or from the International Monetary Fund.

Resort to the second alternative could mean a policy of general import restriction or devaluation of the dollar. Neither course commends itself. Import restriction would mean a reversal of the liberal trading policy we have followed for nearly 30 years. Devaluation would be the clear-cut economic remedy, but it would have serious political disadvantages. Rather than take either of these courses of action, we may well continue to make some compromise with the domestic objectives for the sake of an orderly international economy. But the need for compromise can be avoided by successful pursuit of all the domestic objectives, including price stability.

Public ambivalence

To sum up, public policy *can* avoid recessions and stimulate growth in a private enterprise economy. The chief obstacle is one of public ambivalence. The objectives receive support, but employment of the means needed to achieve them arouses vehement opposition. This opposition arises from a number of reasons.

- First, special interests oppose interference with their part of the economy. The housing industry does not welcome control, even if such control is in the general interest and will, over the years, benefit the housing industry itself.
- Second, the problems of today may call for actions that violate the cherished hopes of yesterday. During the Thirties the trend toward equality through progressive income taxation was regarded as not only socially desirable but economically beneficial. The present emphasis on growth may require reversal of these trends.
- Third, the use of budget deficits to achieve recovery was associated during the Thirties with the introduction of New Deal social expenditures. The memory of the period has lingered, and those who are in favor of stability but against social measures are left with an awkward dilemma.
- Finally, the lessons of economic analysis take time to learn. Despite the weakening of modern family ties, the ideas of one's grandfather on economic matters are still accorded considerable respect.

For all these reasons there is danger that wishful thinking will be substituted for constructive action. ■

Are Overseas Investments a Drain?

by ELLIOTT HAYNES

■ THE SUDDEN outflow of gold from the United States in the latter half of 1960 panicked a good many Americans and American institutions of stature and influence. As a result there were highly dangerous, ill-informed attacks on the very business practice that can help solve our balance of payments problem in the short run and strengthen our position in the world economy over the long pull. I refer to direct, private foreign investments by U.S. manufacturing companies. The usually sober *New York Times* has editorialized that "investment" abroad is the biggest drain on the dollar, and in its columns on November 28 of last year, C. L. Sulzberger suggested a curb on the building of plants by U.S. firms in Europe and Canada, since "the corporate owners make the profits. And Uncle Sam loses exports."

Yet more serious is the spread of this nonsense to Washington. Both C. Douglas Dillon and Chester Bowles felt inclined to go along with Senators Albert Gore, J. William Fulbright and others in the thought that tax "incentives" (in fact, there are none) to invest in Europe should be removed. We can be sure that this is only the beginning of a campaign to cripple one of U.S. industry's most valuable activities. If direct investment in industrial countries is restricted, both the U. S. balance of payments and the employment of U.S. labor will suffer in the long run.

These attacks have failed to distinguish between two kinds of foreign investment. One—investments made by industry—is labeled "direct foreign investment" by the Department of Commerce. All investments made by U.S. corporations, whether for land, buildings, machinery or equity shares, are labeled "direct" so long as they are made in enterprises at least 25 per cent owned by the U.S. corporation. The second kind is all other private foreign investments, including those made by individuals. These are called portfolio investments, and are private investments in foreign securities and in time deposits in foreign banks.

Portfolio investments during the last decade, except for 1953, have resulted in a net outflow of dollars. That is, more dollars have been sent abroad in portfolio investments than have been received in the U.S. as income on such investments. In the entire period from January, 1950, through June, 1960, the outflow of portfolio investments exceeded the inflow of interest from them by $5 billion.

In contrast, in every one of those years the annual inflow of income from foreign investments made by U.S. industry has been greater than the outflow of funds by a minimum of $200 million and a maximum of $1.1 billion. For the entire period, from January, 1950 to mid-1960, the net inflow amounted to $8 billion.

The net outflow from portfolio investments has, in some years, more than offset the net inflow from direct investments. This took place in 1956, 1957 and 1958. The drain on our reserves resulting from the two kinds of foreign investment combined totaled $450 million in these three years.

In sum, U.S. industry is helping to balance our international accounts by investing abroad. The inflow of dollars stemming from these investments in the form of dividends, interest, fees and royalties is greater than the outflow of new capital.

This record is made possible partly because profits earned abroad and reinvested abroad are not calculated in our balance of payments—and rightly so. Our balance of payments is made up of disbursements from this country and receipts paid into this country; money earned abroad and reinvested abroad neither entered nor left the U.S.

Another reason is that U.S. industry obtains income-producing assets abroad in exchange for its patents, skills and know-how. It also finds local sources of capital—especially loan money—or substitutes for capital to cut down the export of U.S. capital. A number of U.S. firms have obtained 50 per cent or more of the equity interest in joint ventures abroad in return for their patents and know-how alone. And in al-

most every joint foreign venture, the U.S. company concerned gets some sizable amount of stock through such an exchange. Dividends paid on it are, of course, convertible to dollars.

As for finding local capital or substitutes for it, literally hundreds of U.S. firms have cut their export of investment dollars to the bone. They have borrowed from local banks and other financial sources, obtained U.S.-owned foreign currencies under Public Law 480, qualified for local government grants and loans, and negotiated with governments for low-priced leases of plants constructed to their specifications. Nor is this all. U.S. firms have found it possible in case after case to use the proceeds from exports of components and materials used in getting a new plant under way to finance a large portion of their investment in the local company.

Reinvestment of foreign earnings in new or expanded foreign ventures is commonly practiced by leading U.S. manufacturers. In the period between 1950 and 1957 about 55 per cent of the earnings of foreign subsidiaries of U.S. firms was reinvested.

Return flow

There are many reasons why the accumulation of such funds in wealth-producing assets abroad is better for the U.S. and its balance of payments than storing up an equivalent amount of gold in Fort Knox. Direct investments abroad provide an immediate and constant return flow to the U.S.

Such investment saves old jobs in the U.S. held by workers producing for export—and often creates new ones. This is so because U.S. investments are rarely, if ever, made abroad at the expense of U.S. exports. Rather, they are made when exports become difficult or impossible. And new difficulties confront U.S. exports almost every day—such as dollar famines in developing nations; new cost and price competition abroad; and government regulations preventing imports in order to force industrialization.

For example, Willeys-Overland has 22 assembly plants abroad, equipped mostly with U.S. machinery. While all of them depend upon local materials to some extent, all of them import some U.S.-made components. Thus the company's annual exports of more than $70 million stem, in a major degree, from the fact that these plants were put up abroad.

The H. J. Heinz Co. established a factory in Britain many years ago with an original investment of less than $200,000—a subsidiary that is now yielding a dividend of more than $2 million annually. The company introduced, among other things, a favorite U.S. dish, baked beans, to the British public. The food became popular. Now Heinz imports each year millions of dollars worth of U.S.-grown beans into England for processing and canning.

Yet another prominent U.S. manufacturer, finding its goods squeezed out of foreign markets, initiated a substantial program of foreign investment in 1955. As a result, the corporation's overseas sales of U.S. manufactured components have doubled and its profits (before taxes) have quadrupled. More than 500 U.S. workers have been put on the job of producing for these foreign plants. In one product line, finished exports have declined 29 per cent while exports of semifinished products jumped 326 per cent. The company's total wages and fringe benefits paid to labor in the U.S. for this export production soared from $18,000 in 1955 to $230,000 in 1960. This firm has had a favorable balance of payments—in 1959 alone to the extent of $26.5 million.

Establishing plants abroad builds markets for U.S. exports for the long pull, too. Imports of U.S. goods into any country reflect that country's national income. As the national income rises, so does the import of U.S.-made goods.

This fact is illustrated by a comparison of three industrially developed countries with three that are less developed. The average per capita national income for France, Britain and West Germany together was $895 in 1959. Despite tariffs—some of them prohibitive—the annual per capita purchases of U.S. products in these three countries was $13.16 in that year. In contrast, the average per capita purchases of U.S. products in Brazil, India and Nigeria together was $1.51 in 1959. These latter three countries had an estimated average per capita national income of $79 at the end of the 1950s.

If the per capita national income of the three less-developed nations were to rise to the levels now prevailing in the three European countries, U.S. exports to those three markets alone could soar from $760 million to $6.6 billion.

Royalties and fees

Foreign investments and reinvestments also usually return an immediate down payment for patents, know-how, machinery, etc., plus a continuing inflow of royalties and fees for technical services. For example, a U.S. appliance maker has found that 80 per cent of the dollars spent for its latest European investment purchased machinery and equipment in the U.S.; moreover, the new firm made an immediate down payment to the U.S. parent for patents and know-how. Thus the outflow of dollars resulting from this substantial investment totaled only a few thousand. And the investment will continue to generate dividends, fees and royalties, quickly becoming a plus factor in the balance of payments.

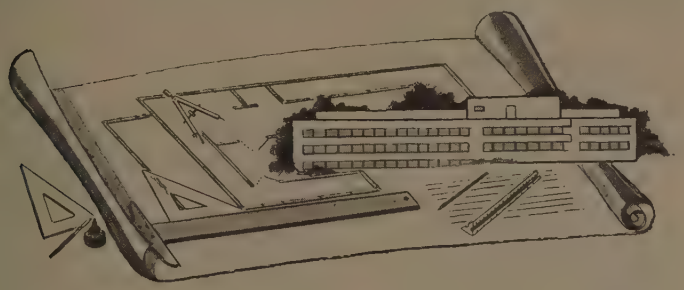
As the years go by, for a given corporation the composition of this inflow into the U.S. tends to change. Exports of components, machinery, etc., drop off and these earnings are replaced by greater return of dividends; royalties and fees remain more constant.

In short, direct foreign investment and reinvestment make a continuing positive contribution to our balance of payments problem. A dramatic illustration of this is the total balance of payments figures for one giant U.S. corporation which have just been compiled by its international division. This firm has made almost all of its investments in industrial Europe. It has very few exports of finished goods. But its earnings from exports of machinery, equipment, components and materials to its own foreign plants combined with its foreign income from fees, royalties and dividends have exceeded its outflow of dollars over the past 10 years by $2 billion.

This example is one of hundreds that clearly show how leading American corporations are helping our balance of payments because they have made and are continuing to make foreign investments. In brief,

to earn our way in the world we must sell in Europe and Japan, and for many products the only route to sales is production on the spot. The fact that U.S. exports of materials and components are stimulated by such investment is important, but it is icing on the cake.

Furthermore, U.S. industry, to retain its leading position in world commerce, must swiftly move into



operations on a global scale. Unless U.S. manufacturers are free in the next two to 10 years to invest where and when survival in the competitive race dictates, they—and the U.S. itself—will sink into second place or worse. It would be most unwise to put any kind of damper on U.S. investments at this crucial moment when Europe is undergoing a second industrial revolution. Such action would not merely damage our immediate balance of payments situation; it would be economic suicide.

Growth rates abroad

The reasons for this are not difficult to understand. They start with phenomenal growth rates abroad. In Europe, gross national products are expected to rise about 50 per cent in the next decade. As population will increase by only 10 per cent in the same period, this spells an exciting increase in per capita purchasing power. Yet it would be impossible for U.S. manufacturers to command a significant share of this market through exports, even if trade integration was not taking place in Europe.

Price competition, distance from the market, transportation and other cost factors, the different consumer tastes in design and style, all these and more make export a less-than-adequate method of cracking European and other foreign markets for many U.S. manufacturers. The impact of the European Economic Community and the European Free Trade Association, which are eliminating internal tariffs, must also be considered. In sum, the effort to stay abreast of the competition through exports alone becomes well nigh impossible. Unless they *do* stay abreast, however, U.S. manufacturers will quickly lose their present stature in the world economy—as will the U.S. as a nation.

The need for untrammeled investment activities abroad by U.S. corporations goes even deeper. To stay on top, U.S. industrial concerns must evolve a system of production and distribution based squarely on locations where supplies can best be obtained and from which customers can best be served. A good example is provided by the Ford Motor Co.

About half of an automobile is bought from independent suppliers, and inevitably some countries make these components more cheaply than others. Ford is taking increasing advantage of this fact on a European-wide, and indeed Atlantic-wide, scale. Thus, U.S. spark plugs are sent to Germany for incorporation in Ford's Taunus made in that country. By the same token, acquisition of more and more components will be centralized in different countries of Europe—for assembly and manufacture in Europe and, in some cases, in the U.S. as well.

The next stage, already in planning, of Ford's evolution toward a world corporation will alter the pattern of production in Europe of the vehicles themselves. The guts of the vehicle, given the size and expense of the equipment involved (dies, etc.), will have to be centralized. For example, owing to economies of scale, production of tractors and heavy trucks may continue to be concentrated in England, which would be the source of supply for all of Europe. Some decentralization from present locations is possible for tax, labor, political and other reasons, but it will be limited, much as engine-plant decentralization in the U.S. is restricted to Ohio and Indiana. Much greater decentralization is possible for stamping and assembly operations; in the U.S., in order to cut costs, assembly plants have been scattered all over the country in areas of concentrated population.

Like other progressive firms, Ford is not waiting for Europe's trade barriers to disappear to compete on a truly international scale. In a variety of ways manufacturers can, right now, take advantage of tariffs and quotas within the European Economic Community and the European Free Trade Association, or between them. In the automotive industry, for example, European Free Trade Association producers can now sell in the Italian market because Italy does not restrict imports of unassembled vehicles by quota and places only a low tariff on them. Similarly, European Free Trade Association producers can send unassembled automobiles to Benelux countries and pay a tariff only half that on assembled vehicles. Ford, therefore, will continue to assemble its British cars in Belgium.

In its European operations, Ford is making extensive use of the tariff situation. When it is cheaper to ship assembled cars from one country to another, this is done; but local assembly plants are used when this is advantageous. The company is also planning to vary its methods as tariffs change.

As Ford's example shows, the firm that starts ignoring national boundaries to the greatest extent possible *today* is the one that will improve its position most rapidly. To do so, it must be free to invest abroad where and when it wishes.

The meaning to the U.S. balance of payments is clear. If we wish to remain a viable nation, we must help, not hinder, our manufacturers to become world corporations. Against this background, proposals to restrict investment in Europe represent a threat to the national interest. ■

Paul P. Harbrecht, S.J.: PENSION FUNDS AND ECONOMIC POWER

abstracted by EDWIN M. ZIMMERMAN

■ THE RAPID GROWTH of pension funds is a modern phenomenon. In 1949 an estimated 6.2 million employees were covered by private pension plans. By the end of 1958 about 16.5 million employees—roughly one-quarter of the nation's working population—were covered. During the 1950s the assets held by private pension funds more than tripled, growing from some $11 billion in 1950 to more than $33 billion by the end of 1957. [By 1959 this total had mounted to $44.7 billion.] Moreover, there is no substantial diminution in the rate of growth of these funds foreseeable before 1970 at the earliest.

An accumulation of so much wealth must necessarily have major significance. In this study Father Harbrecht analyzes this newly important financial force and speculates on its effect on American social and economic organization.

The introductory chapter reviews some of the reasons for the recent rapid growth of pension funds. For one, Old-Age and Survivors' Insurance and other forms of social security made employees security conscious. Furthermore, the high rate of corporate taxation and the deductions permitted for an employer's contributions to a pension fund in effect greatly lowered the cost of such funds to corporations. The wage stabilization programs during World War II and the Korean war shifted attention to such "fringe" benefits as pensions. Then, too, the recognition by the courts since 1948 of pensions as proper subjects of collective bargaining together with increasing union pressure for them has aided the development of pension funds.

To set the stage for examining the impact of the pension trusts on the institution of private property, Father Harbrecht surveys the system of property tenure in the United States. Corporate ownership of property is the dominant form—the book value of the assets of business corporations represented, in 1955, some 70 per cent of our estimated total national wealth. Moreover, there is a high degree of concentration of ownership of productive property within the ranks of corporations. One study, for example, showed that 135 large corporations owned as much as 45 per cent of the country's productive property.

The question of who owns and controls these large corporations is critical. Individual stockholders cannot exercise effective control over them. A 1952 survey indicated that the median shareholding of individuals was well below 100 shares; in 1956 two-thirds of all shareholders were in households having incomes of less than $7,500 a year; and, further, one out of every three individuals who bought stocks did not purchase them for long-term investment and accordingly cannot have a sustained interest in management affairs. This is true also of many individual shareholders who hold stock for six months or longer.

This dispersion of ownership rights places corporate control in the hands of a stockholder minority or, more usually, in a management group.

A new tendency is, however, starting to appear—that of concentrating corporate control (and hence control of property) in financial institutions such as pension trusts, insurance companies, investment companies and banks.

Such institutions have, since 1900, grown faster than other segments of our economy. Their ownership of corporate stock has become important. Recent estimates by the SEC indicate that financial institutions own some 27 per cent of the shares of the corporate stock outstanding. Moreover, these institutions tend to concentrate their purchases in shares of the largest, and hence the most influential, corporations. And they usually have long-term investment objectives.

With a growing diversion into various kinds of institutional funds of money that individuals might have used to buy stock, even the nominal rights to individual proprietary control of corporate wealth are being displaced by mere claims on financial institutions. Further, the growing coalescence of stockholder power in the institutions places control in the hands of salaried managers, and this diminishes the proprietary interest of the individual in the economy's strategically important productive property.

The pension funds stand out among the institutions by reason of their unusually rapid rate of growth (private, noninsured funds increased eighteenfold in 1929-52, while assets of all financial institutions increased 3.3 times) and their leading position as institutional purchasers of stock in recent years. As the most dynamic of the financial institutions, the pension trust warrants detailed scrutiny.

Abstracted from Father Harbrecht's book, *Pension Funds and Economic Power*, copyright 1959 by The Twentieth Century Fund.

Abstracts of significant, original research are prepared by leading scholars for publication in CHALLENGE at frequent intervals. They are presented as a public service in cooperation with the Joint Council on Economic Education.

Father Harbrecht therefore examines the mechanics of the pension fund to discern the allocation of power and rights among the administrators, the financial trustees and the covered employees.

In the typical corporate pension program, the three basic documents delineating rights are the collective bargaining agreement, the pension plan itself and the trust indenture representing the agreement between the plan's administrators and the trustee of the plan's funds.

Union influence

Union influence on the pension plan is important. Some 60 per cent of the workers covered for pension benefits are under collectively bargained programs. Moreover, the collective bargaining agreement during its life assures execution of the employer's promises. Unions, however, are hampered by insufficient information about the operation of the funds and by the absence of a voice in the actual management of the funds.

The plan itself usually sets forth a statement of company policy on retirement provisions and the details as to eligibility, amount of benefits and cost of operation. In most cases —as in plans covering 86 per cent of all covered workers—the plan is administered by a single employer, directly or through a pension committee of his choice. Some plans are administered jointly by the employer and union. Relatively few funds are administered solely by unions. The employer usually assumes the whole cost of contributions to the fund and restricts the employees' rights by reserving the right to terminate the pension program, to amend the provisions or to reduce his contributions.

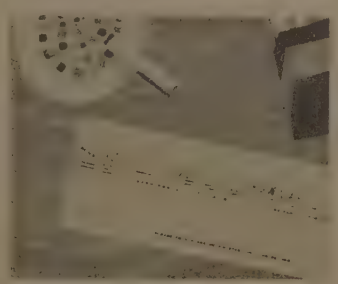
At present, not enough plans of this type provide for the vesting of an employee's rights to benefits before reaching retirement age. Indeed, the employee is apt to lose all benefits if he leaves before retirement age; but even if he stays, some plans restrict pension rights after retirement. For example, many plans prohibit postretirement employment by a competitor; others provide for suspension of pension rights for "misconduct" as determined by the pension plan's administrators.

In the financing of the plan, the employee's realization of his benefits depends on the solvency and good will of the employer. In large, well-established companies, however, the employee's risk of not getting his pension on retirement is not great.

Funded trusteed plans are in frequent use. The employer turns the funds over to a third party—usually a bank or trust company—to conserve and invest against future obligations. Often the trustee is given broad investment authority over the funds.

Employers acknowledge the utility of a pension program as a means of retaining a superior and loyal work force and as a device for orderly retirement. The cost is generally recognized as one of the costs of doing business and a substantial portion of business income is irrevocably committed to the pension fund. But employers usually are not willing to acknowledge that pensions are a form of deferred wage. Hence they resist provisions vesting pension rights in employees prior to retirement and are reluctant to recognize the employee's right to full disclosure of how the funds are built up and invested.

The great interest of organized labor in pension funds is of recent origin. Unions at present assert that the worker has proprietary rights to



the monies in the funds and argue in favor of joint administration of the funds by employer and employee representatives, as well as full disclosure of information about the operation of the funds.

The corporate trustee is concerned with investment policy. It aims at the safety and enhancement of the fund's assets. While the largest proportion of corporate pension funds is invested in fixed income securities, several features unique to pension trusts—such as the great liquidity of assets, the large cost savings resulting from even a modest rise in investment return, the continued need to invest as the employer's contributions flow in —provide continuing pressure toward increased investment by the trustees in corporate stock and for the delegation of full investment authority to the trustees. In practice, the corporate trustee tends to concentrate stock purchases in high-price common stock.

To the extent that information is available regarding the trustee's policy in voting the stock so purchased, the tendency is to vote with management or to remain neutral.

By contrast with the employer, union and financial trustee, the individual employee plays a passive role. Decisions are made for him by his union or by the employer acting alone. He may not even have a choice of whether or not to participate in a plan.

Structure of plans

The Internal Revenue Code has been of major importance in determining the structure of pension plans. To qualify for preferential tax treatment, the pension plan must provide for definitely determinable benefits, must be permanent and nondiscriminatory, and the employer's contributions must be irrevocably dedicated to the exclusive benefit of employees or their beneficiaries.

Federal labor legislation has had only limited significance since the regulation imposed by the Taft-Hartley Act does not reach the employer-managed trusteed funds.

The recently enacted Welfare and Pension Plans Disclosure Act is a step in the right direction but has many weaknesses.

In the past few years states have begun to regulate pension fund operations directly. Father Harbrecht briefly reviews the laws enacted by California, Connecticut, Massachusetts, New York, Washington and Wisconsin. The Massachusetts law, the most comprehensive in scope and application, contains registration and report requirements, provisions for public disclosure, establishment of a board with investigative power and authority to sue on behalf of fund beneficiaries, and penal provisions for fund embezzlement or fraud.

Father Harbrecht suggests that recent state legislation which assigns

to state officials the duty of protecting the rights of the beneficiaries of pension funds presages the pattern for the future. Moreover, it reflects the basic change occurring in property concepts—the "rights" of the pensioner are not his individually but are passing into the public domain.

Although pension plans are considered subject matter for compulsory collective bargaining under Taft-Hartley, that Act has not been interpreted to afford federal jurisdiction of suits by the union to enforce its members' pension rights. Employees themselves must attempt to enforce them—in federal courts if diversity of citizenship can be shown, otherwise in state courts.

When attempting to sue, the employee is faced with the question of the nature of his right—if any. In particular, legal rights under the employer-managed pension trust have not been conclusively delineated by the courts.

Where a noncontributory plan is involved, as is often the case in employer-managed funds, some courts regard the pension promise as a mere gratuity, particularly where a plan document explicitly states that the employees have no proprietary rights in the fund. Other courts are undecided whether the relationship is one of contract—a unilateral contract in which the employee accepts a continuing offer of a pension by fulfilling the requirement of service for a given number of years—or whether a true trust arrangement has been established. If the plan is regarded as a contract, the employee who voluntarily leaves before fulfilling the terms of the offer has no rights, and the "trustee" has no obligation to account to the beneficiary for his stewardship.

Contractual right

Some courts show a tendency to reject the gratuity theory and to regard the pension as a deferred wage. But, by and large, the best the employee can hope for at present is some recognition of a contractual, not a proprietary, right.

When attempting to sue the corporate trustee, the employee—even when his rights to the pension have ripened—has additional problems. Most trust indentures provide that only the employer and the trustees may be parties to suits involving the trust.

In sum, Father Harbrecht's survey emphasizes the confused and flimsy nature of the pensioner's property rights. By and large, until he has completed a lifetime of work—i.e., accepted the unilateral offer—the pension beneficiary acquires almost no rights at all. Even when eligible he has no clear rights against trustees regarding management of a trust. Though the courts may be evolving a system of property rights on which the pensioner may one day rely, at this point his rights to the wealth in the pension funds are at best contractual in nature, and not those of ownership.

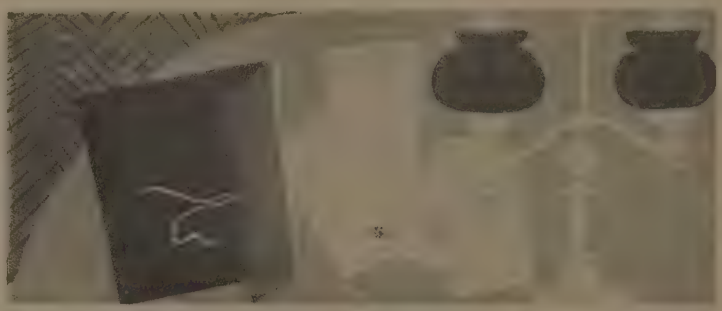
If, indeed, the huge aggregations of wealth in the funds are "unowned" by the pensioners, then who does control the economic power represented in these funds?

The market value of the assets held by the noninsured corporate pension funds was estimated to exceed $23 billion at the end of 1958. Contributions to these funds in 1957 represented 10 per cent of all financial savings by individuals that year.

The investment practices of the trust funds increase the significance of their wealth. Analysis of their portfolios shows that over four-fifths of the total assets are invested in corporate stocks and bonds, with about twice as much corporate debt held as common stock. The trend is to channel even a greater proportion of total assets into corporate securities. At the end of 1957 the pension trusts owned 11 per cent of the total market value of all corporate bond issues and 2.3 per cent of the value of corporate stocks.

The stock purchases of the pension funds tend to be concentrated in blue chip or quality equities. One study showed that one-fourth of fund purchases were made from a list of 25 stocks. Another study showed over 50 per cent of the employee welfare fund stockholdings of New York banks was concentrated in 35 companies, while as much as 90 per cent was in stock of 206 companies.

There is also a high concentration of all pension assets in a relatively small number of large-size funds. In 1957 less than 14 per cent of the funds had 85 per cent of total pension fund holdings of corporate bonds and 80 per cent of common stocks. And, of even greater significance, there is a great concentration of investment control of fund assets in a relatively few large banks which act as trustees. A New York study in 1953 showed that more than 98 per cent of pension fund assets was held by 13 large banks.



Employers direct policy

The employee as an individual has no voice in the control of this powerful economic force as his rights are limited to claims against the fund on retirement.

The employers direct pension policy, subject to such limitations as the unions may impose through collective bargaining. The employers also appoint and pay financial trustees to manage the funds. Frequently, the financial trustee is given broad investment control over these assets, and it is here that Father Harbrecht discerns a major coalescence of power.

Considering the characteristics of the pension trusts—their increasing size and relative importance, the concentration of their assets in a relatively few large funds, the broad in-

vestment authority over them held by a few large banks, the emphasis in fund portfolios on corporate securities, and the growing tendency to concentrate stock purchases in a highly selective list of blue chip issues—Father Harbrecht concludes that corporate control by bank trustees is a real possibility. He notes, however, that the banks do not seek such control and that their authority to manage the funds is always subject to change or may be restrained by the employer.

In sum, financial control of the pension funds is conditionally delegated to banker-trustees by the employer; operation of the plan is controlled by the employer, often in accordance with an agreement negotiated with a union; and the employee or beneficiary of the plan, except through his union, has little or no authority over the plan.

Father Harbrecht estimates that all private noninsured pension fund assets will total $84 billion by the end of 1970. He also estimates that as much as 35 to 40 per cent of the pension trust assets will be invested in common stock by 1965 as compared with current investments of around 25 per cent.

These developments promise to place a continued upward pressure on the prices of the blue chip securities and, more significantly, to put the large banks which have the bulk of the fund trustee business in a position to influence or control policy in the corporations in which they are investing.

In setting forth his conclusions, Father Harbrecht first appraises the impact of the private noninsured pension fund on the employee.

To the extent that property ordinarily serves to give its possessor economic security and freedom, the pension system as currently constituted is defective as a form of property organization.

Father Harbrecht urges that the courts treat the employer as a true trustee and the employee as a beneficiary with legally enforceable rights. This, together with recognition that the funds are a form of deferred wage, would serve to fix the employee's rights to the pension and make it serve more adequately as a device for economic security.

The present pension system also may be criticized as limiting the employee's economic freedom. In fact, he loses his job mobility. Because of the absence of vesting, he forfeits his pension if he leaves his job. Moreover, the expense of providing pension rights for job seekers over 45 years of age limits their chances of obtaining new employment. The pension system also results in a further loss of freedom to the employee to decide whether he wishes to save part of his compensation in this way, and if so how these earnings should be invested. Even when his eligibility to a pension is established, he has no control over the principal, he is still subject to possible termination or amendment, and he is dependent for his full benefits on the current level of economic prosperity.

Economic freedom

Father Harbrecht urges the extension of vesting provisions, now included in many plans, as a means of increasing the ability of the pension system to provide economic freedom to the employee.

He attacks the gratuity theory as highly unrealistic. The employee provides a *quid pro quo* for his pension in terms of continued service. At the very least a binding contract should be recognized.

At this point in the development of the private pension fund, Father Harbrecht concludes, no one really owns these great aggregations of wealth. Although some of the prerogatives of ownership are being exercised by the fund managers and the financial institutions, the pension assets are not the property of either of these groups nor are they as yet regarded as the property of the employees.

In his concluding chapter, Father Harbrecht assays the larger significance of the rise of the pension funds and other financial institutions in relation to the social order. He finds parallels with medieval society which also had a separation of ownership of property from control—vassals were given control of land on condition that they performed certain services. Father Harbrecht detects several similarities, including the fact that the satisfaction of consumer demand and social needs—not the making of profits—is the driving motive for the managers of the large corporate concentrates which characterize our economy.

Like the medieval domain, the corporation is chiefly concerned with assuring its continued existence, with profit making only a means to that end. The status of the individual in society is determined by his position in the corporate hierarchy, just as in medieval times status in the domain was the chief measure of power. Moreover, just as property tenure in the medieval period was conditioned upon the performance of a service, the tenure of corporate managers in a position of control is ultimately limited in the same manner.

Drawing on the experience of history, Father Harbrecht observes that power is associated with *control* of property, not with mere ownership. Power gravitates to those who can use property to perform a function society demands. But the greater the concentration of power, the more property tenure is conditioned on a successful performance of the service which caused that concentration.

In Father Harbrecht's view, the service performed by the pension funds and other financial institutions, which is causing a gravitation of power to them, is that of distributing to the generality of people a share in the capital wealth of corporations without, at the same time, imposing on the investor of small means the degree of risk that direct ownership would entail.

The lodging of power of control in the financial institutions, along with the powers already in the hands of the corporate managers, is producing a society whose structure is based on control, not ownership, of property. Ownership is no longer a particularly meaningful concept.

Father Harbrecht's concluding observations bear on the effect of the new relationships on the individual. He warns that attenuation of man's reliance on his own possession and use of property for status and security may diminish initiative and personal responsibility. In particular, it may lead to unrealistic demands on the economic system by individuals who never had occasion to experience the limitations of the operation of the system. But he hopes that the very challenge of molding the new system to the individual's purposes will stimulate initiative. ■

Economic Issues of the 1960s. Alvin H. Hansen. 244 pp. New York: McGraw-Hill Book Co. $5.50.

• In a short compass, Alvin Hansen of Harvard discusses a very wide field of economic issues in a most effective and persuasive manner. His main thesis is that there must be greatly increased spending by the federal, state and local governments if we are to increase our rate of growth and meet the Russian challenge.

He believes that this is also essential for the health of our society; with the growth of automation, private business has become extremely efficient in the production of goods, and the whole economy will suffer unless more of our resources are channeled into such fields as urban renewal, hospitals and education. These, essentially, are fields where the community, not the individual, is the market.

Hansen advocates an increased reliance on sales taxes to finance increased government outlays. The "Dual Economy"—the partnership of government and private enterprise—has, he holds, invigorated private enterprise and must expand if we are to progress.

Inflation, tax policy, economic aid, the problems of underdeveloped countries and the U.S. balance of payments are some of the other subjects the author explores.

As one of the nation's leading economists, Hansen will have a strong, if indirect, influence on the economic policies of the Kennedy Administration. Whether one agrees with him or not, this is a book that one should read. It may be a preview of our economic future.

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The Public Interest. Glendon Schubert. 244 pp. Glencoe, Ill.: The Free Press. $5.00.

• The author, a professor of political science at Michigan State University, examines the concept of the public interest. However, there is no theory of what the public interest is and how it can be discovered that is satisfactory to him.

For various reasons he rejects the following concepts: that the public interest is what the people as a whole want; that it is discerned by persons engaged in the business of governing; and that it is the democratic accommodation of differing private interests.

Schubert's conclusion is essentially that the public interest does not exist. It is like "the little man who wasn't there," in the rhyme that ends, "He wasn't there again today./I wish, I wish, he'd go away." Schubert wishes that the idea of public interest would likewise "go away." He has not suggested a public-interest theory of his own because he feels that political scientists might better "spend their time nurturing concepts that offer greater promise of becoming useful tools in the scientific study of political responsibility." But, surely, "political responsibility" is another name for "public interest."

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The Impact of Collective Bargaining on Management. Sumner H. Slichter, James J. Healy and E. Robert Livernash. 982 pp. Washington: Brookings Institution. $8.75.

• Based on extensive field research, this comprehensive study covers almost every phase of the collective bargaining relationship except the economic consequences of general wage movements. The authors examine in great detail management policy and practice—hiring, promotion, transfer, wage scales, production standards and so forth. Other subjects covered include negotiations, discipline, wildcat strikes, grievances and administration of contracts. Chapters are included on the problems of high-cost plants and union-management cooperation.

The book is valuable for students of industrial relations and for those working in the field. For others it is likely to prove too long and too detailed.

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Broadcast Regulation and Joint Ownership of Media. Harvey J. Levin. 219 pp. New York: New York University Press. $4.50.

• Although this volume might be considered too technical for the general reader, it focuses considerable light on the problem of maintaining an open market place for ideas in our communications media. Levin, Associate Professor of Economics at Hofstra College, has provided convincing statistical data to prove that there has been a sharp trend toward joint ownership of newspapers and the radio and television stations which service their market areas. These facts should give pause to those who feel that although there has been an increasing concentration of ownership in the newspaper field, the papers must face competition from other media such as radio and TV. The author concludes with a plea to the Federal Communications Commission to give more weight to considerations such as overall media ownership in granting licenses to broadcasters.

Levin's study should be required reading for incoming FCC Chairman Newton Minow, and James M. Landis, the President's special adviser on the regulatory commissions.

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Welfare in America. Vaughn Davis Bornet. 319 pp. Norman, Oklahoma: University of Oklahoma Press. $4.95.

• Bornet, a staff member of the RAND Corp., examines public and private welfare instrumentalities and the techniques employed by them. First, he reviews public welfare in the U.S. and the changing attitudes which have brought welfare from the area of individual charity to become a responsibility of government. In a world where human values are becoming increasingly important, Mr. Bornet feels that this trend is desirable.

But he emphasizes that welfare is still an individual concern. While aware of the flaws in the administration of some private welfare organizations, the author nevertheless defends vigorously their purposes and underlines the important role played by the volunteer worker.

The big change in volunteer welfare in the 20th century has been its centralization, mechanization and increasing subordination to those who are masters of its financing. While this change has, in certain areas, brought greater administrative efficiency, Dr. Bornet feels that it "dehydrates the act of individual charity."

The final section is devoted to an analysis of social service and the adequacy of social workers to perform their tasks. The author concludes with a warning: though we must guarantee a minimum well-being to our citizens, such a guarantee must not involve a loss of personal freedom.

THE DOMESTIC ECONOMY—Depressed areas are very much in the news these days, and this is as it should be. The fact that there is a cyclical downturn in industrial production has finally driven home the realization that in some parts of the country prosperity is only a word understood by "other" people. Each postwar recession has revealed new pockets of unemployment added to old regions already long afflicted, in some cases for almost a generation. The moment of truth came in 1961.

The signs of a general recession are unmistakable. Car sales are off by 25% from a year ago. Steel continues to flounder at 52% of capacity. The increment of $76 million in consumer credit for January represents the smallest gain in 26 months. Unemployment stands at 5.5 million.

Yet these signs of the economic times do not begin to tell the real story of the depressed areas. Of 150 leading production centers in the United States, 76 are on the depressed list—6% or more of their labor force looking for gainful employment. Of these, 14 have a jobless rate of 9%-12%.

Some areas have for years been well ahead of the national average of unemployment. Welch, W. Va. has 28% of its work force currently unemployed. Uniontown, Pa. has a 23% unemployment rate.

The story of coal is most typical. Changes in consumer preference, accompanied by mechanization of mining operations, have resulted in serious unemployment in large areas of Indiana, Illinois, the upper Great Lakes region, Pennsylvania, Kentucky, West Virginia and many communities along the Appalachian range.

Decreased consumer demand for wool textiles, plus changes in plant location, have left many New England towns depressed. It is estimated that some 15 million people, workers and families, are involved in these shifts.

Not all the news is bad, of course. The electronics industry has increased employment by 320,000 in the 10 years since 1950. Employment in the chemicals industry has gone up 28%; in retail stores, 20%; banks and trust companies, 55%.

But the older industries, once the mainstay of our economy, are not maintaining their postwar rates of growth. The fact that they shouldn't be expected to does not mitigate the plight of people caught in such centers.

Employment in anthracite coal mining is down 85% since 1950; in the bituminous coal fields, 53%; in textiles, 29%; in tire and tube manufacturing, 11.7%.

Technological changes have caused a reduction of 10,000 production workers in oil refining since 1947. Another 13,000 production workers have been cut from the rolls since 1953 in the chemicals industry, even though over-all employment went up. Twelve men produce a ton of steel in one hour, as against 20 in 1941.

The steel industry has spent nearly $7 billion in the past 5 years for more efficient plant and equipment. It can now operate at full capacity with 13,000 fewer production workers. Fifty per cent more automobiles are produced today than in 1947, with virtually no change in the number of production workers. About 160,000 unemployed in the auto producing centers probably will never go back to old jobs.

This is the story of change, progress and displacement. The economy will be out of the doldrums by the end of 1961. But for those caught under the wheels of progress there will be no relief until they can find gainful employment in the 1960s.

President rejects tariff rise

ECONOMIC NEWS NOTES—President Kennedy has taken a definite free trade position in his first decision involving tariff policy.

The decision, turning down a request for an increase in the tariff on twine and cordage, came after the Tariff Commission split evenly on a request from domestic manufacturers for relief under the so-called "escape clause" provision of the Reciprocal Trade Agreements Act. Most of these imports come from Mexico and Canada.

While no sweeping conclusions about the Administration's future tariff policies can be drawn from this one decision, it is certainly an indication of the President's thinking on tariff matters.

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administering depressed areas program

A behind-the-scenes battle is raging within the Administration over who is to administer the President's depressed areas program which is almost certain to pass Congress at an early date.

Liberal and labor groups, the most active proponents of the legislation, favor the creation of a new agency to run the program. The President, however, is believed to favor placing it under the Commerce Department. AFL-CIO leaders contend that the Commerce Department would be more amenable to conservative pressures over the implementation of certain parts of the program.

The final decision is, of course, up to Congress where the bill's sponsor, Sen. Paul Douglas (D.-Ill.), strongly opposes Commerce Department control of the program. The end result will depend on how much pressure the Administration is willing to exert.

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tightening tax regulations

Many businessmen and tax experts are asking the Internal Revenue Service to reconsider sweeping new regulations instituted in the closing days of the Eisenhower Administration.

The new regulations were designed to curtail the revenue losses that result when profitable corporations merge with firms having tax loss credits, thus reducing the taxes of the merged business.

Heretofore, if the profitable firm kept the company it acquired in its original line of business for at least 2 years, the tax loss could be applied against the profits of the acquiring corporation.

The new regulations state that the tax loss credit cannot be applied if the original intention was to change the line of business as soon as the 2 years expired. The new rules also severely limit the use of tax loss credits where a merger involves firms in completely unrelated lines.

While the new Administration is likely to maintain the essence of these regulations, hearings on their possible effects are being held which could result in some modifications.

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new Kefauver investigations

The Senate has approved a $450,000 budget for the Antitrust and Monopoly Subcommittee, headed by Estes Kefauver (D.-Tenn.). The committee, which created considerable furor over its investigation of drug prices during the last session, plans to continue this investigation in addition to launching several new ones.